Shipping

Shipping Corp's Julian for Forum Line board

Continued from Page 1

Julian, a long-time friend of Prime Minister Rob Muldoon, was appointed to the board of the Shipping Corporation last year.

Early this year, when Sir Tom Skinner, who had been acting chairman since the retirement of Sir John Ormond, was confirmed as chairman, Julian was apppinted deputy chairman by the Government, ahead of two foundation directors, J R Madden and Ian Mackay, both experienced businessmen.

Julian is tipped to become chairman of the corporation if Sir Tom pulls out next year when he reaches the official retirement age.

The Government decision to replace Shea with Julian has to be approved by the South Pacific Regional Shipping Council. It is considered unlikely that a member government's appointment would be challenged.

The chairman of the Forum Line until October 1 was Neroni Slade, then the Western Samoan Attorney-General.

Shea acted as chairman in Slade's absence.

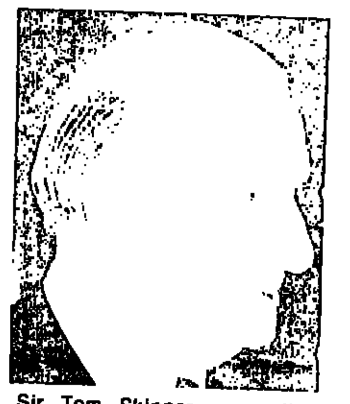
After Slade's resignation took effect on October 1, Shea was chosen as acting chairman by a poll among the other four directors. This was confirmed at a meeting on October 29, when it was decided to hold a formal election for a new chairman at the next board meeting in February.

Slade has since resigned as Attorney-General in Samoa. Varying reports have said he planned to practice as a lawyer in Samoa or in New Zealand.

The Western Samoan Government has denied Slade's resignation was for political reasons.


Rob Muldoon ... no financial interest


Malcolm Fraser ... aid programme source


Sir Tom Skinner ... acting chairman

The Pacific Forum Line was formed in 1977 by 10 member countries: New Zealand, Western Samoa, Nauru, Papua New Guinea, Tonga, the Solomon Islands, Cook Islands, Fiji, Tuvalu and Kiribati. Australia, Niue and Vanuatu are associate members.

Only five member countries are represented on the directorate: New Zealand, Western Samoa, Nauru, Papua New Guinea and Tonga.

The line was established to service and develop trade around the South Pacific.

It has three ships, but lost \$3.5 million in 1979 and is heading for a \$6 million loss in this current calendar year.

This loss and how it would be paid for was the subject of a celebrated argument between Muldoon and Australian Prime Minister Malcolm Fraser during the Prime Ministers' conference in New Delhi earlier this year.

Fraser wanted the money to come from Australia's Pacific aid programme grants and Muldoon and other Pacific Island leaders wanted special support aside from aid programmes.

Julian was defeated recently in a bid for the deputy chairmanship of the Auckland Harbour Board.

The Forum Line appointment will not be his first foray into Pacific Islands shipping. He was interested in the Cook Islands Shipping Company, a 50-50 venture between Julian Holdings Ltd and Albert Henry's Cook Islands Government.

When this company began trading between Rarotonga and Auckland in 1971, the shareholders of Julian Holdings were Harry Julian and Rob Muldoon.

Muldoon was quoted in the press as saying he did not have a financial interest in the company.

An on-and-off shareholder was Edward Dyson, the Advocate-General to the Cook Islands, Albert Henry's solicitor and his nautical adviser and friend since the 1940s.

The company's main asset was the Lorena, a Norwegian-built island trader mortgaged to the Bank A/S of Norway for \$100,000.

The Lorena sailed into industrial storms from the beginning. Julian, as managing director, Dyson as nautical adviser to Albert Henry, and Albert Henry himself wanted Rarotongan seamen to man the ship, which had no washing-machine, cramped sleeping quarters and no mattresses — conditions that no New Zealand Seamen's Union member would put up with.

After a long period of industrial strife, the company was forced to use New Zealand seamen. The venture was not successful.

In 1972 came a change of government in New Zealand. The new Labour administration did not look kindly upon the Cook Islands Shipping Company and planned a new New Zealand Government/-Cook Islands Government joint venture.

Julian wanted the Labour Government to buy the Lorena. When it wouldn't, he claimed it was because he was associated with the wrong politician, Rob Muldoon.

Muldoon was accountant to Harry's father and a trustee of the Julian Family Trust.

Muldoon's accountancy firm acted for all the Julian companies.

According to Company Office records, Muldoon (jointly with Dyson) held a majority shareholding in Julian Holdings until 1972, when his shares were passed over to the joint ownership of Dyson, Fred Mills (Muldoon's accountancy partner) and Harry's son, Lancelot.

The other half of the Cook Islands Shipping Company was owned by the Cook Islands Government Property Corporation.

The Julian Holdings shareholding was bought out by the Cook Islands Government.

Albert Henry decided to withdraw the Lorena from service in 1974 because it was losing between \$3000 and \$4000 a voyage, and the bank was threatening to foreclose on the \$400,000 mortgage.

Shortly afterwards, the Department of Maori and Island Affairs took over the shares of Cook Islands Shipping Company so the Shipping Corporation could run the ship on its behalf.

The company's assets and liabilities cost the Government \$700,000.

The Labour Party was far from happy about the arrangement. Questions were asked in the House about equipment that went missing from the ship when it was taken over by the Shipping Corporation, including essential transmission and receiving radio equipment. Legal proceedings were threatened and the equipment was returned.

The ownership of the Lorena was obscured by the fact that there were two Cook Islands Shipping Companies, one registered in Rarotonga and the other in Auckland.

At one time, Julian family interests were involved in both. The one which owned the Lorena and was subsequently bought by the New Zealand Government was registered in the Cook Islands.

The second company was incorporated in Auckland in 1969, with a capital of \$200, the shareholders being Harry Julian (195 shares) and Fred Mills (five shares).

Until 1974, half the shares were owned by Silk and Boyd Ltd, of Rarotonga, a heavily subsidised inter-island service operating out of Rarotonga.

This latest Government appointment for Julian is likely to lead to renewed charges that he has gained too many favours from the present National administration.

When he was appointed to the Council for Recreation and Sport in 1977, Labour's Eddie Isbey fulminated that it was blatant patronage.

President of the NZ Yachting Federation for six years, Julian did not actually lead the Government-urged boycott of the Moscow Games earlier this year because he was no longer in office, but told *NBR*: "I had a representative and he did what I told him."

Julian is aggressively loyal to his old friend, Muldoon, and says he will not hear a word spoken about him, but mainly because of the office he bears.

"I am an admirer of the Prime Minister and, yes, I can say I'm a friend," he told *NBR*.

If he heard people attacking Muldoon in his presence, he would ask them to desist, just as he did when Norman Kirk was Prime Minister "although I didn't have much time for the man".

Volume 10, No. 46 (Issue 411) December 1, 1980 ISSN-0110-6813

NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

Incorporating Admark

80 cents

NATIONAL BUSINESS REVIEW

Inside

Liquor industry giants brew deal to reshape distribution

by Warren Berryman

THREE liquor industry giants — one British, one Australian, one New Zealand-owned — are completing a deal that will change the face of the Australian and New Zealand liquor distribution systems.

The deal — which involves the sale of the Challenge Corporation's liquor outlets — will create a new export industry for New Zealand complete with a ready-made market.

First, Toohey's-Castlemaine Ltd of Australia, International Distillers and Vinters Ltd of Britain, and New Zealand Wine and Spirits will form — in equal partnership — Tasman Wines and Spirits (NZ) Ltd with \$900,000 paid-up capital.

This company, to be formed on March 1, will borrow \$1.2 million from each of its three shareholders and \$2 million from New Zealand lenders.

Tasman then will buy all the shares in Wrightson Wines and Spirits Ltd from its parent company, the Challenge Corporation.

The price for Wrightson's 18 liquor outlets is about \$7 million.

The takeover has been granted Overseas Investment Commission approval.

Wrightson's outlets, mainly in country towns, have about 6 per cent share of the retail liquor trade.

New Zealand Wines and Spirits has about 33 per cent of the wholesale trade and 15 per cent share of the retail trade.

The Wrightson outlets will be managed by Tasman as a separate company.

No redundancies are expected, but some of Wrightson's senior management people will return to Challenge.

Tasman Wines and Spirits is expected to turn over more than \$20 million a year.

Return on capital is expected to be about 14 per cent and the cost of borrowings between 14 and 16 per cent.

While wine and beer exporters have to fight to establish a brand awareness in export markets, NZWS would be producing well known and established brands for established markets supported by multinational marketing and advertising expertise.

The second stage of the deal will see the establishment of an Australian national distribution company controlled by Toohey's-Castlemaine, NZWS and IDV together with the Tasman distribution company here, to cement a common interest among the big three.

IDV's Smirnoff and Gilbeys compounding operation in Australia is apparently unprofitable. Thus it would make sense to source the alcohol from New Zealand.

Apart from production costs there would be the added sweetener of export incentives. The availability of cheaper whey-based alcohol would make the deal even more attractive.

On the other hand, Australia's bottling, tinning, and packaging costs are far lower than ours.

The tie-up between Toohey's-Castlemaine, NZWS and IDV may open a new field of trans-Tasman rationalisation.

Last February, NZWS obtained a licence to make the Jamaican coffee liqueur, Tia Maria, in this country from Jamaican essence and white spirit from New Zealand Distilleries (in which NZWS has an interest).

NZWS exports 90 per cent of the Tia Maria it makes. Estimated exports of the drink for the 1981 calendar year are \$5.72 million fob.

Export incentives sweetened the deal for Tia Maria. NZWS

Continued on Page 5.

ABC: meat men stewing

by Warren Berryman

THE Meat Board's decision to confine the transportation of all United States-bound meat exports to existing conference carriers has sparked angry reactions from New Zealand-owned sectors of the meat trade.

The board has been accused of acting in the interests of foreign shipping and meat interests at the expense of local farmers' interests.

On November 20 the board declined applications for approved carrier status from ABC Container Line and the Government-owned Shipping Corporation.

This move came only one day after Transport Minister Colin McLachlan called for a review of shipping arrangements and more competition from non-conference lines such as ABC.

The Meat Board has informed the Shipping Corporation that the board will not stand in its way if it wants to carry meat to United States Gulf ports as part of its Caribbean service.

Transit times for Shipping Corporation ships to Houston and New Orleans is about 34 days versus 19 days for cartel ships or 25 days for ABC Containerline ships.

The Shipping Corporation will offer trans-shipment facilities from these ports to inland United States destinations. But inland freight costs must be paid by the shipper.

Legal moves against the Meat Board are now being contemplated. The US Justice Department's anti-trust division is already investigating a case against the conference members after the Wool Board barred Ace Lines.

The Meat Board's move against ABC is similar to the Wool Board Ace Line case.

American law allows open conferences (rate agreements) but prohibits closed conferences restricting the number of shipping lines entering the cartel or conspiring to have lines shut out of the trade.

ABC's application went to the Meat Board supported by


Colin McLachlan . . . calls for more competition

Waitaki NZR, Canterbury Frozen Meat, Primary Producers Co-op Society, Dawn Meat, C S Stevens Co, Mair and Co, Co-op Wholesale Society, Hawke's Bay Farmers Meat Co, and Hawke's Bay Farmers Co-op.

Federated Farmers had previously asked the producer boards to open up a portion of the trade to competition from non-conference carriers.

Last June ABC offered the Meat Board guaranteed shipment space for 1000 meat containers (10 per cent of the total meat trade to the United States) to America's gulf and east coast at 7.5 per cent less than the rate eventually struck with the conference.

This offer was for 14 sailings a year, each carrying 60 to 80 reefer containers, and calling at a South Island port.

ABC's transit time to the USA was 25 days versus about 19 days for other carriers.

ABC put a November 7 deadline on its offer. Meanwhile, the Meat Board was negotiating with the conference, which was seeking a 14 per cent freight rate increase.

Realising these negotiations might be deadlocked, ABC improved and firmed up its offer, agreeing to hold 1980 freight rates for 1981 — a 14 per cent saving.

When the deadline came and no decision had been reached the board asked ABC for a two week extension.

Waitaki NZR managing director, John Nelson, a staunch

Continued on Page 20

The week

Budgetary or bribery?

MINI-budget: election bribery or overdue, unadventurous, moves in the right direction: You choose. Employers are the main beneficiaries with subsidies for creating jobs for school leavers. Income tax cuts were only $7.27 a week for top income earners, less for most.

Irrigation projects, Taranaki roading, and leave for the Federation of Labour to take a case for a cost of living wage order to the Arbitration Court had been foreshadowed. Small businesses will be able to draw up to $100,000 each from a $10 million fund administered by the DFC. CNG use will be encouraged with a $200 grant unit to conversion kit suppliers.

COMMONSENSE was the order of the week for the Navy. It will not be getting a new $230 million frigate, the Cabinet decided, but cheaper ships more suited to patrolling the 200 mile economic zone.

ANOTHER Auckland freezing works is under the threat of closure. W & R Fletchers will close its Westfield plant with the loss of 1100 jobs unless industrial and effluent disposal problems can be cheaply resolved:

And freezing workers across the northern half of the North Island enforced a load out ban on meat and dairy exports in protest at the closing of Affco's Southdown works.

THE United States Food and Drug Administration placed a temporary ban on green lipped mussel extract imports, subject to lengthy reclassification tests. Arthritis sufferers and the growing mussel industry are the immediate casualties.

PETRALGAS (Alberta Gas and Petrocorp) failed its environmental impact audit on its Taranaki methanol plant. The Commission wants stricter pollution controls.

THE Thomas Commission of Inquiry report was released in its entirity despite Police Association pleas to protect those officers who were strongly criticised.

FRANCE is maintaining its objection to 1981 EEC quota for Anchor butter, at least unless the amount is substantially sliced below the recommended 90,000 tonnes. As it now stands, no New Zealand butter can technically enter Europe after January 1.

THE example of a strong stand by the four main vehicle assemblers in Wellington to halt a strike by 19 NZ Motor Corporation employees was not followed by the oil companies in dispute with storemen and tanker drivers over redundancies. On-again off-again stoppages disrupted fuel supplies, particularly in Canterbury.

The business week

Alloy Steel (NZ): unaudited profit for the six months ended September 30 was $17,264 (last year $15,824).

APA Holdings Ltd: unaudited profit for the 11 months ended August 31 was $1,284,000 (last year $1,114,000). A final dividend of 5.5c will be paid on December 19.

Australian Consolidated Industries Ltd: unaudited profit for the six months ended September 28 was $17.9 million (last year $16.9 million).

Profits earned by **Alex Harvey Industries Ltd** were well below those for last year. An interim dividend of 7.5c will be paid on February 27.

Bank of New South Wales: net profit for the year to September 30 was $128,159,000 (last year $107,198,000). A final dividend of 10c will be paid on January 30.

Canterbury Timber Products Ltd: unaudited profit for the six months ended September 30 was $1,339,982 (last year $1,562,999). Export sales are up 64 per cent. An interim dividend of 10c will be paid on December 9.

Carter Holt Holdings Ltd: unaudited profit for the six months to September 30 was $4,466,000 (last year $2,872,000). An interim dividend of 10 per cent is payable on December 18.

CSR Ltd: Net profit for the six months ended September 30 was $70,152,000 (last year $45,518,000). An interim dividend of 9 per cent will be paid on December 17.

T & J Edmonds Ltd: unaudited net profit for the six months to September 30 was $310,057 (last year $503,113). An interim dividend of 9c will be paid on December 12.

Firestone NZ Ltd: net profit for the year ended October 31 was $3,809,900 (last year $2,703,129). A final dividend of 8c will be paid on February 19.

Freightways Holdings Ltd has increased its stake in **Chep Handling Systems Ltd** by 12 per cent to 51 per cent.

Industrial Chemicals Ltd: unaudited net profit for the six months ended September 30 was $153,500 (last year $138,000). An interim dividend of 4.5c is payable on December 31.

John Edmond Holdings Ltd: unaudited net profit for the six months ended September 30 was $431,000 (last year $400,000). An interim dividend of 7 per cent will be paid on December 12.

Lusteroid Paints Ltd: unaudited net profit for the six months ended September 30 was $252,000 (last year $208,000). An interim dividend of 5 cents will be paid on December 18.

Manawatu Knitting Mills Ltd: unaudited profit for the year to October 19 was $412,400 (last year $255,500). A final dividend of 5.5c – 11 per cent – will be paid on February 18.

NZ Forest Products Ltd will resume log exports, next year.

NZ Land Securities Ltd: audited loss for the year to June 30 was $105,581 (last year $668,711 loss). The company is now trading profitably.

Otago Press and Produce Ltd: unaudited profit for the six months ended September 30 was $148,802 (last year $136,225). An interim dividend of 5c will be paid on December 16.

Prestige/Holeproof (NZ) Ltd's capital reconstruction has been approved by the High Court. Share capital will be reduced from $7,440,000, 50 cent shares to $3 million.

Repco Ltd will raise $15 million through the issue of $1 cumulative redeemable preference shares paying 9.4 per cent.

Suckling Industries Ltd: unaudited net profit for the six months ended September 19 was $152,939 (last year $272,183). An interim dividend of 7c will be paid on December 12.

Tasman Pulp and Paper Co Ltd: unaudited pre-tax profit for the six months ended September 30 was $26.9 million (last year $9 million). An interim dividend of 10c will be paid on December 9.

Taylors Drycleaning and Laundry Services Ltd: unaudited profit for the six months to September 30 was $44,200 (last year $56,000). An interim dividend of 7c is payable on December 19.

UEB Industries Ltd wants to sell the 14 hotels in the Travel Tours chain for $20 million.

The Examiner of Commercial Practices has approved Yates **Corporation Ltd** takeover of **E Watson & Co Ltd**. Yates now has received acceptance from holders of 79 per cent of Watson shares.

A J White Ltd has been removed from the Stock Exchange listings following a takeover by **H W Smith Ltd**.

Exchange rates

As at November 27 $1 selling

Britain	[illegible]
United States	[illegible]
Canada	[illegible]
Australia	[illegible]
Fiji	[illegible]
Austria	[illegible]
Belgium	[illegible]
China	[illegible]
Denmark	[illegible]
France	[illegible]
Greece	[illegible]
Hong Kong	[illegible]
India	[illegible]
Ireland	[illegible]
Italy	[illegible]
Japan	[illegible]
Malaysia	[illegible]
Netherlands	[illegible]
New Caledonia & Tahiti	[illegible]
Norway	[illegible]
Pakistan	[illegible]
Portugal	[illegible]
Singapore	[illegible]
South Africa	[illegible]
Spain	[illegible]
Sweden	[illegible]
Switzerland	[illegible]
West Germany	[illegible]
Western Samoa	[illegible]

The Week Ahead

COMMISSION of Inquiry into freight forwarding due to report this week.

WEDNESDAY: Printing and Packaging Corporation AGM in Christchurch.

FRIDAY: NZ Farmers Co-op AGM in Christchurch.

Time expert returns

INTERNATIONAL time management expert Dr Alec Mackenzie is making another trip to New Zealand next year.

Mackenzie's return seminar session is being sponsored by *National Business Review* in association with Qantas and Paddy Guildford Insurances.

Mackenzie, a world authority on time management and author of the bestselling *The Time Trap*, a how-to guide to the more productive use of time, was highly popular with senior company management when he lectured in New Zealand earlier this year.

On his return trip he will undertake public seminars in Auckland and Wellington and several private seminars for large companies who want to help improve the efficiency of their key executives.

National Business Review has agreed to jointly sponsor Mackenzie's return tour because, as Fourth Estate managing director Reg Birchfield says: "Mackenzie provides a very important management education function."

"I was very impressed with the day I spent in Mackenzie's company and think he has a great deal to offer New Zealand management, which, let's face it, handles time rather badly."

The week

Small firms need cash to benefit from big deals

by Allan Parker

THE Prime Minister's mini-budget fillip to the small business sector last week reflects growing concern about the future of many small companies that have the potential – but not the cash – to expand alongside the "think big" projects.

Politically, too, the venture finance facility and job creation programme are designed to deflect criticism that the Government is concentrating too heavily on the major energy-based development projects at the expense of the small business community.

While those big projects will provide some specialised employment, there is a growing fear about job prospects for the estimated 250,000 school-leavers who will enter the employment market in the next decade. Without a healthy and growing small business sector, many of these will start their working lives on the dole.

The big projects will have a drag-along effect – "the multiplier factor", according to DFC general manager John Hunn – for the small business sector. But small firms still need injections of capital and an expanded work force to take full advantage of any downstream potential from the major projects.

Hunn, whose Small Business Development Division will run both new schemes, estimates that up to 20 per cent of Small Business Agency clients have difficulty raising finance – as predicted by pre-establishment surveys.

The initial $10 million, he told *NBR*, will allow these and other small businesses to enlarge their equity base and thus expand borrowing capabilities.

Business has been brisk for the SBA in recent months. The corporation's just-released interim report for the six months ended September 30 records more than 5000 small business inquiries.

The new venture capital facility will have a ceiling of $100,000 a year for each company or group of companies. Hunn predicts most investment will average considerably less.

Demand is difficult to estimate but the corporation is reckoning it will take about two years to fully utilise the fund.

While the cash will be channelled only to companies with export-earning, import-saving or technology-based abilities, it is hoped a general stimulus in this area will boost along other sectors of the small business community – again, the multiplier factor.

The corporation believes that the new scheme will continue the undoubted successes of the SBA since it opened shop in 1978.

Initial SBA manager and now head of the revamped Small Business Development Division, Murray Smith, has just returned from an international small business gathering in Melbourne confident that the New Zealand operation is "at least comparable and in many ways superior" to similar operations abroad.

"Nothing that I heard in Melbourne makes me feel a need to revamp our services here," he said.

The DFC therefore finds recent criticism of its small business service hard to swallow.

Ex-mayor remains in firing line

by Warren Berryman

CONTROVERSIAL ex-mayor of Waitemata City, Ian McHardy, decided not to run for office last local body election because he claimed his fellow councillors and the press were picking on him.

But even out of office, he is likely to be in for a few more shots from disgruntled Waitematians.

The new team of councillors have cancelled some $5 million worth of McHardy's proposed expenditure, repudiated property deals initiated in the last days of McHardy's reign, and brought into question some of the outstanding city accounts.

Also the Auckland District Law Society is still interested in the manner in which McHardy (wearing the hat of lawyer and property dealer – not mayor) signed and witnessed legal documents lodged at the Land Transfer Office.

In 1976 McHardy executed a memorandum of transfer for a house. The signatures on the document read I G and B P Nixon as transferors and I G McHardy as witness.

In fact I G Nixon and B P Nixon were Ian McHardy and a woman friend. Thus it seemed that McHardy witnessed his own signature.

After investigating the case, the Law Society sent a letter to a Waitemata City councillor saying the society was satisfied that the signatures were those of Ian McHardy.

The society did not say what action would follow.

It appears to be legal to buy and sell property in an assumed name so long as the intent is not to defraud a third party. Witnessing one's own signature is a matter which the Law Society is looking into and may resolve at its council meeting this month.

Lodging this sort of document at the Land Transfer Office is another matter beyond the Law Society's scope.

The attitude at the society seems to be "so he bought and sold property in an assumed name and witnessed his own signature. So what? Who lost by it?"

Ian McHardy's ex-wife Patricia, now deceased, went to great pains to discover the extent of McHardy's property holdings so she could receive her half as a matrimonial property settlement. McHardy's land holdings in an assumed name did not help her in her search, she told *NBR*.

Patricia McHardy did receive her matrimonial property settlement. But she didn't live to enjoy the use of the money.

PM and "Italian Stallion" spar on film and lands

by Gordon McLauchlan and Warren Berryman

ITALIAN-American moviemaker Sylvester Stallone went into a clinch with Prime Minister Rob Muldoon in Rotorua recently to talk about making a film, buying some land and about other investments of some of the considerable cash resources it is believed he can tap in the United States.

According to one source, Muldoon was not exactly knocked off his feet by the tentative proposals from the man who wrote, acted in and produced *Rocky*. But it is early rounds yet and they have agreed to keep sparring to see what happens.

The Prime Minister will no doubt want to know more about Stallone's economic wins and losses.

Stallone was mixing work with a holiday while he was here.

Rocky was his major movie money-maker of the past few years but he also scored a lot of hits with *Rocky II*.

Rumour has it he would like to make *Rocky III* in New Zealand, with a $25 to $30 million budget. He wanted to talk about taxation and other matters with the Government as a possible *quid pro quo* for publicising New Zealand through the film.

The script, according to one source, is ready for shooting. But it would not be just a case of Rocky *I*, *Rocky II*, *Rocky III* and away. Stallone was looking at real estate while he was here.

Sylvester Stallone . . . Making Rocky III here?

He homed in on the coastline on the ocean side of Coromandel Peninsula and on the Bay of Islands. Someone on the fringe of the party even said the figure of 100,000 acres of coastline was mentioned.

Stallone and his manager also studied the economics of the motel business in Rotorua and showed special interest in the possibilities for siting a casino resort in this country.

One source, close to the party during the visit, said it was felt that it was more in relation to an investment package including land that Stallone and his manager wanted to to talk to the Prime Minister than about movie possibilities.

Stallone was closely accompanied by Tibor Banfi from the time he arrived till the time he left. Banfi is a former coffee bar operator who became managing director of Public Transportation Ltd, the company that negotiated the $33 million Hungarian train contract.

The trains arrive early next year. But Banfi was removed from the board and from executive office in the company in October by the financier behind the deal, Hilton Lowndes.

Banfi arrived in New Zealand as a Hungarian refugee 33 years ago. He says he was back home last April and met Stallone who was filming *Escape to Victory* there. The film publicised Hungary and Banfi thinks he can help to do the same for this country.

He says he invited Stallone here and thinks he might get involved in the *Rocky III* film project.

Although his present company, Hunz Export International, is working on exports to Hungary, Banfi says he is off to the United States soon to talk again to Stallone and other film people.

He mentions the establishment of a local company to handle the filming, and talks about local actors and film processing, but says nothing definite has been worked out yet, even about his own involvement.

"I'd like to make some arrangement that my time is paid for," he told *NBR*.

He thinks the Government would need to make some tax concessions before Stallone and his backers could be lured in for filming but he claims the "Italian Stallion" – as movie magazines have tagged him – found the Prime Minister "receptive."

Banfi rose from coffee bar proprietor to the top executive post in Public Transportation Ltd because he had a specially valuable asset for the negotiations over the Hungarian trains – he could speak the language.

He was still with the company when an argument broke out between the Opposition and the Government last August about the move from the Prime Minister's think-tank to Public Transportation of Dr R Allan.

The Opposition considered it ethically questionable that an adviser to the Government, at the time the deal with Hungary was under negotiation, should join the import company involved after the decision had gone in its favour.

The Government, Lowndes and Dr Allan retorted that the attack was "scurrilous".

IDV tying into local liqueur expertise

Continued from Page 1.

bought into an established market, an established brand name, and Tia Maria's advertising, and marketing network.

NZWS also compounds other spirit-based liqueurs – Pernod, Southern Mist, Mandarine Napoleon, as well as Gilbeys, Beefeaters and Schenley gins, and Smirnoff and Samovar vodkas.

NZWS – which invested $1 million in the Tia Maria plant – has been given the green light from IDV to start making such liqueurs as Demitass and Malibu for the local market and export throughout the southern hemisphere.

IDV, which also owns Britain's Express Dairies, is particularly interested in tying itself into New Zealand dairying expertise in the manufacture of cream-based liqueurs.

The white spirit would have to come from New Zealand Distillery, which has a legislated monopoly.

The New Zealand Dairy Co-op recently geared up to make alcohol from its whey waste product. It should be cheaper than New Zealand Distillery's grain alcohol.

But New Zealand Dairy Co-op is not permitted to produce alcohol for human consumption.

IDV's Irish plant turns out high-priced liqueurs from whey-based alcohol.

If NZWS produced only Smirnoff and Gilbeys spirits for export to Australia, export earnings of $2.5 million a year would be generated.

Cream-based liqueurs will be even more profitable because their high price boosts the price freight/packaging cost ratio.

New Zealand's major disadvantage in the export of liquor is our high cost of bottles, tins, packaging and freight. This disadvantage diminishes as the value of the product increases (*NBR*, August 11).

NZWS managing-director Doug Myers said stage one only gets the three partners together in a working relationship in New Zealand. There are bigger deals afloat.

Toohey's - Castlemaine, Australia's most profitable brewery combine, also owns Wynns Wines.

It is studying the feasibility of establishing an Australian national distribution network for wines and spirits.

If the project proves viable, NZWS and IDV will be offered an equity stake in the enterprise.

IDV, subsidiary of Grand Metropolitan Ltd (1979 sales £2171 million) makes such brands as Gilbeys gin, Smirnoff vodka, J & B whiskey, Baileys Irish Cream, Crofts ports and sherries, and others.

The tie-up among IDV, NZWS, and Toohey's-Castlemaine offers all three companies better access to the New Zealand and Australian markets.

The NZWS interest in an Australian national distribution network would give New Zealand wine, beer, and liquor exporters an entry into the Australian market they have never before enjoyed.

So far as NZWS is concerned, the tie-up offers IDV a profitable possibility for rationalisation of production facilities and a whole new export market for New Zealand.

Editorial

THE Meat Board seems to be arrogantly out of step with farmers, local freezing companies and the Government in discouraging competition on the high seas. Contrary to the wishes of these interested parties, it has declined approved carrier status to the rate-cutting ABC Container Line (and to the State-owned Shipping Corporation) for United States-bound meat exports.

Federated Farmers had previously indicated to the board that it wanted to see an element of competition in the shipping of primary produce. The ABC application for approved carrier status was supported by a number of meat companies (among them, Waitaki NZR, Canterbury Frozen Meat, Primary Producers Co-op Society and Dawn Meat). But most significantly, the Government had made clear its desire to foster competition.

Tourism Minister Warren Cooper (standing in for Transport's Colin McLauchlan) spelled out the Government's position to the Institute of Transport conference the other day. He said Reserve Bank figures indicated that in relation to the value of exports from New Zealand, the percentage spent on overseas freight costs had more than doubled in the past six years. "I would go so far as to say that some measure of competition is ultimately the most effective way of regulating freight rates," the Minister declared. "While not doubting that the boards are sincerely trying to serve the national interest, I would ask whether a certain degree of conservatism may be present in their attitudes which prevents them from clearly perceiving some of the alternatives available in transport today."

Cooper then announced that, in the new year, the Ministry of Transport would be undertaking a major policy review of shipping. "This will provide a clear picture of the role of government in shipping and show the areas where closer liaison between the public and private sectors is desirable," he said.

Meat Board chairman Adam Begg had other ideas: "I think it displays a lack of knowledge of what has actually happened in shipping in recent years." And as if to demonstrate that his board knew better, the very next day it scuttled ABC's meat-carrying ambitions. Not for the first time, either.

Tsvi Rosenfeld came to New Zealand in May last year to announce the extension of ABC services to this country after the company's success in picking up business in Australia. Since then the Meat and Wool Boards have turned down seven applications by the line to ship meat and wool. Ironically, they have then exploited ABC's competitive rates offer to secure lower rate increases from the conference lines.

There is an over-tonnage in world shipping today. Non-conference freight bargains – as the Australians have found – enable good deals to be struck. Our manufacturers have certainly found this out. The freight rate war between Ace Lines and the conference in 1978 brought freight rates for manufactured products down in some cases by as much as 50 per cent.

The Wool Board benefitted from Ace's competitive spirit, too. It used Ace's offer of low freight rates to hold down the level of freight increases demanded by the cartel, then prohibited wool exporters from using Ace. That exercise in enterprise is now the subject of investigatory action by the American anti-trust division of the Justice Department.

The conferences have served New Zealand well over the years, providing regular and reliable service. But the pattern of trade is changing. The United States has displaced Britain as our major customer. We are making big export shipments to countries like Iran and Iraq (and those exports don't go on conference ships). Inevitably, our trade will be increasingly concentrated in the countries of the Pacific Basin – the Asean nations, Japan, Korea, China, the USSR, the USA, Latin America. Thus it is prudent to contemplate what will happen to manufacturers with established markets in Europe when the producer board trade to that part of the world becomes insufficient to provide the same regular shipping service.

A more immediate question is whether the producer boards should have the power to dictate to meat and wool exporters, telling them with whom they must ship. McLauchlan credits the boards with acting in the national interest, but farmers may wonder when shipping policy is determined by the Meat Exporters Council and the Wool Board, both heavily influenced by overseas interests. They may readily suspect that the producer boards thus give undue consideration to the interests of foreign shipping, wool and meat companies.

But the manufacturers have a not insignificant stake in all this. Manufactured cargo rides on the back of producer board cargo, which means that producer board decisions affect manufactured as well as primary exports. Without the bulk cargoes supplied by the producer boards, there would not be enough cargo to justify regular shipping services. Without the manufactured cargoes paying higher rates than primary cargoes, producer boards would have to pay higher freight rates and perhaps price their commodities out of foreign markets. Thus in shipping, the interests of manufacturers and primary producers are interdependent.

The threat to manufacturers is that the producer boards can drive a shipping line out of the trade, as they did with the Ace Lines. Just as Ace had been doing, ABC has been carrying manufactured cargo at cheaper rates than those charged by the cartel. Those rates can make or break a manufacturer's export efforts. If the Meat and Wool Boards drive ABC from New Zealand, the manufacturers will be the biggest losers.

But manufacturers have no say in the flow of bulk cargo out of the country. The producer boards sit down with the cartels to negotiate freight rates; thus they effectively dictate the shape of the country's shipping services. Now that manufacturers earn some 20 per cent of the country's foreign exchange through their exports, they should be allowed representation at the negotiating table. Too much is at stake for us to leave our lifeline to world markets in the hands of producer boards which are showing signs of being out of touch not only with the wishes of the farmers who they supposedly serve, but also with the wider interests of a nation which is throwing everying into its overseas trade.

— Bob Edlin

Without word of a lie

Caught out in the Khyber Pass

IF Comtel International ever existed – and police inquiries suggest it did not – it could be doing a thriving business but for its address.

Comtel International is the name on top of invoices from a bogus trade directory company which recently flooded British business firms.

The Association of British Chambers of Commerce, Scotland Yard and the New Zealand Government Office in London all received complaints about the invoices, which appeared to contravene legislation on unsolicited goods and services in Britain and New Zealand.

The scheme is being investigated by the New Zealand Fraud Squad and the Chamber of Commerce has been looking into the affair and has warned people against paying the bills.

And why did British recipients of the invoices so quickly become suspicious? The address given by "Comtel International" apparently was the fly in this particular ointment. According to a British Chamber of Commerce official: "It seems many people were alerted by the fact the company said it came from the Khyber Pass."

Some legal advice for the PM

A WELLINGTON lawyer – musing on the royal commission's recommendation to pay compensation to Arthur Allan Thomas and on the upshot of the Marginal Lands Board affair – spells out some succinct advice to Rob Muldoon: The Government should buy Long Gully from the Fitzgeralds and give it to Thomas.

How not to court a prosecution

THE closure of country court-houses may save a few dollars in terms of the Justice Department budget but the costs to the community generally – the time, travel and so on when citizens must go to another centre – seem not to have been officialdom's concern.

There seem to be some interesting social costs, too. In the wake of the closure of one country court-house, litigants, witnesses, and the rest must travel a fair distance to the nearest city to see justice done.

Recently, we hear, a resident of the district was stopped by a traffic officer with good cause to be suspicious and – when his car door was opened – tumbled on to the road.

The inevitable breath test gave an equally inevitable positive result. The next stage in the prosecutory procedure was not so easy.

The local doctor wouldn't come to undertake the statutory blood test; his reasoning was that if the motorist faced charges as a result of that test, then he would have to take time off from the surgery to travel to the city to testify. The hassle was something he would prefer to avoid...

Result: one obviously drunk in charge got off scot free.

Brockie's view

Painting a way out of the red

FINANCIALLY troubled Air New Zealand might have overlooked this idea, however as it brushes up on cost-cutting techniques:

British Airlines has dropped the word "airways" from its logo. Removal of the word from its aircraft, ground-based vehicles and other equipment, says airline chief executive Roy Watts, will save BA about $469,950 a year in paint.

NATIONAL BUSINESS REVIEW

Published by Fourth Estate Newspapers Ltd.
Managing Director: Reg Birchfield
Marketing Director: Ian F Grant
General Manager/Accountant: Stephen Underwood

Editorial:
Editor: Bob Edlin
Production: Ralph Green, Ann Taylor

News & Features:
Colin James, Rae Mazengarb, Stephen Bell, Jack Hodder, Allan Parker.

Contributing:
Finance: Peter V O'Brien

Auckland Bureau:
Warren Berryman
Gordon McLauchlan

Advertising Sales:
Manager: Paul A C S Loh

Promotions:
Manager: Kathi Scott

Circulation:
Manager: Jan Chee

Auckland Office:
2nd Floor, Leviens Building
Cnr Airedale & St Paul Streets, Auckland
Tel: 799-304

Wellington Head Office:
Fourth Estate Newspapers Ltd
15 Blair Street, Wellington NZ
PO Box 9344
Tel: 738-876
Cables: Natbus

National Business Review incorporates *Admark* and is a registered publication weekly (except for last week December and first two weeks January).

Typeset and composed by Computype Services Ltd, Wellington. Printed by R. Lucas & Son Ltd, 118 Kapiti Road, Paraparaumu.

Single copies: 80 cents
Subscription rate: NZ$30
Member ABC (Audit Bureau of Circulations)

Accident compensation: taking a broad view

by Derek Quigley

LITTLE criticism of the changes proposed by the Cabinet/caucus committee, which reviewed accident compensation, has any foundation. In fact much of what has been said is completely erroneous.

The Accident Compensation Act came into force in 1974 and generally has worked well. It represents a vast improvement on the previous combination of workers compensation, common law and social welfare. For instance under workers compensation, weekly payments ran for only six years from the time of an accident, while under common law, lump sum payments which depended on proving someone else was at fault, were virtually won on a lottery basis and were often paid out years after the injury.

The committee set out on its task of reviewing the Act with no preconceived views, nor with the intention of cutting costs or reducing benefits. We were, however, aware that there had been numerous calls for improvements. Among the advocates for change was none other than Geoffrey Palmer MP, who had publicly stated that there were 20 to 30 quite serious problems of a detailed nature in need of attention.

The review committee was no ordinary caucus committee, but a group of Cabinet and backbench Members of Parliament who were appointed because of their areas of special expertise. Four of the committee were members of Cabinet and two, Gair and Holland, had had previous experience with accident compensation. Both Gair and Holland have over the past 10 or so years been members of virtually every select committee and caucus committee on this topic.

During the course of considering approximately 200 separate submissions, the committee was conscious of issues in two broad areas – principles and practicalities. Our starting point was the underlying principles of the original Woodhouse report, and we endeavoured to recommend changes to bring the scheme more into line with that original concept. The practical application of the scheme was another matter, and in this area we recommended changes to streamline procedures, increase efficiency, reduce abuses and re-emphasise those original guiding principles.

Few of those who have criticised the review committee's recommendations have been concerned with the practical application of accident compensation. Indeed, most have concentrated on the scheme in an ideological or impractical sense. However, as a committee charged with the responsibility of the review, we had to be concerned with practicalities and the actual current application of the Act. With this in mind we were aware that some special interest groups were bound to criticise, but we would have been irresponsible if we had only concentrated on the potentially popular areas.

The proposed changes will bring substantial improvements. We have recommended that the top level structure of the present commission be changed in favour of a board of directors responsible for policy, and a managing director responsible for day-to-day administration. This will allow a broad-based input from a diverse range of skilled and independent directors and will allow for a clear differentiation between policy and administration. Not surprisingly, there has been little criticism of this change.

We have also recommended improvements for the self-employed. At present (because compensation is based on net income) this group can be seriously disadvantaged by, for example, tax incentives which reduce net income. The change will allow self-employed the option of a minimum cover set at 80 per cent of the average ordinary time wage for 13 weeks without need to prove loss of income, or the existing cover under this Act. Although the new option will not overcome all of the problems faced by the self-employed, the change will be distinctly helpful. Typically, the critics of the review committee's recommended changes have ignored this improvement.

The proposal to exclude, under certain circumstances, criminals from lump sum and earnings-related compensation has attracted considerable favourable public comment. The committee responded to the clear public demand for such exclusions but in doing so was acutely aware of the potential problems.

However, the committee believed that evidence of possible problems was not enough in itself to preclude a recommendation for change. It noted, with some surprise, that the Law Society appears to favour exclusion only where crimes of violence are involved. If this does represent Law Society thinking, then that thinking is naive because exclusion should be based on involvement in the commission of a serious crime, whether there is violence or not. As injury by accident is being compensated, the burglar who is injured is surely as deserving of exclusion as the person convicted of aggravated robbery.

A further recommended change involved a reduction in the level of first week earnings-related compensation for work accidents from 100 per cent to 80 per cent. During deliberations, the committee became aware of the problems at this level. For example, since the inception of accident compensation reported injuries in the freezing industry for the period one to seven days have increased by 224 per cent. By contrast numbers employed in the industry have increased by only 11 per cent. This shows that something is wrong.

We noted the following comment in Sir Arnold Nordmeyer's 1977 report on accidents and occupational diseases in the freezing industry: "In fixing the rate of compensation at 100 per cent of the earnings of the worker ... Parliament had ensured that the scheme would inevitably lead to widespread abuse ... 100 per cent compensation puts too great a strain on human nature".

Sir Arnold concluded: "It is possible that Parliament may not feel that the Act needs alteration – if the freezing industry and its various unions can succeed by common resolve and united action in eliminating those abuses rightly causing so much public concern. I shall watch with some hope for a considerable reduction in the number of accidents reported and in the number of compensation claims submitted."

Unfortunately the abuses have continued and change has become necessary.

Tied to the change in the level of first week compensation is the further recommendation that the employer be directly liable for earnings-related compensation (where the accident is work-related) for a total of two weeks. This extension from one to two weeks is designed to improve workplace safety by directing the burden of accident costs to individual employers.

This should encourage a more responsible attitude among those employers with an unsatisfactory accident record by making them directly accountable to their employees in respect of the extra week of incapacity.

Palmer, in his book *Compensation for incapacity*, stated that employers' direct liability in respect of the first week compensation may well be a spur to employment safety. He said: "If the rate was lowered to 80 per cent and the employer obliged to pay for the first month, the financial incentive would be even greater."

The committees also noted that Susan St John's excellent MA thesis, entitled "Cost allocation in the New Zealand Accident Compensation Scheme", also lends support to the theory behind the change. Interestingly, St John does not support a rebate of levies or a penalty scheme as a safety incentive, but rather favours more direct costs to the employer.

An additional advantage of the extension of direct liability is that those employers with good accident records will not be required to subsidise to the same extent as previously those employers with bad accident records.

The proposal to require an accident victim to meet part of the cost of the first two visits to a general medical practitioner has attracted considerable comment. Unfortunately most of the critics do not seem to appreciate that the change only relates to non-work accidents, because those receiving treatment for work accidents will be entitled to claim the amount back from their employer. The maximum amount payable will be $5 for each of the first two visits, not the $20 to $40 a visit suggested by the editor of *Journal of the General Practitioners Society* (October 1980).

While the committee endorses the principle of community responsibility this does not negate some degree of individual responsibility. Accordingly, the committee believes that it is not unreasonable to expect patients to meet part of the cost of non work-related accident treatment themselves. They do this now in respect of sickness and they did it prior to accident compensation in 1974.

Free treatment at public hospitals will continue to be available but there is no reason to believe that significantly more accident victims will be treated there simply to avoid a small doctor's payment. We were also conscious of the following statement in the original Woodhouse report: "If compensation is provided on a suitably generous basis it seems fair to leave part of the loss with the man himself".

The theory behind the proposal to extend the present waiting period from one week to two weeks before earnings-related compensation is received for non-work accidents is also found in that statement. The concept of community responsibility in this area is now in fact a myth because it simply means employer responsibility. The earners', or work-related part of the scheme is designed to impose variable levies on employers based on workplace accident records, but this is not the case for non-work accident. A flat rate levy is imposed to fund employees' non-work accidents and bears no relation to the non-work accident record of a category of employees. Safety incentives are therefore irrelevant. For this reason it would seem reasonable to require some degree of personal responsibility in respect of short-term incapacity arising from leisure time activities.

The issue of lump sum payments has also attracted considerable attention. The committee believes that this is a dual issue. The first relates to the argument about the necessity for lump sum payments if weekly earnings-related compensation and rehabilitation assistance are available. The Woodhouse report stated: "We are left in no doubt that in general lump sum payments are not in the best interest of injured plaintiffs".

Lump sum payments are a carryover from common law, when some injured persons received payments for permanent loss of income disability, pain, suffering, etc. These payments were dependent on proof of fault and were designed to aid rehabilitation as much as they were designed to compensate for loss of income. Accident compensation replaced the previous system with generous cover for medical costs, earnings loss, and rehabilitation assistance, but there was originally to be no place for lump sum payments.

The scheme was, however, modified before it became law in 1974 and lump sum payments were included. The committee recognises this historical fact and accordingly proposes to retain the provisions for the more serious permanent loss or disability cases and for cosmetic-type disfigurement.

The second part of the lump sum argument relates to the minor losses, disabilities, disfigurements, etc. Almost anything within this definition attracts a lump sum at present, and each decision is open to review and appeal. Consequently considerable time and money is spent on resolving these minor claims. This was not the intention of the Woodhouse Commission and the review committee recognised that clear guidelines needed to be established to (a) differentiate between minor and more serious claims and (b) minimise the opportunity for legal disputes to arise.

The Woodhouse report stated: "The very real drain upon any compensation fund results from the many payments for short term and quite minor injuries. Accordingly it is extremely important that the level of compensation for these injuries should not be allowed to rise to a point where the majority of lesser troubles are satisfied at the expense of those whose problems are great."

There are two further relevant points. The first concerns the so-called "social contract" which the Law Society alleges the committee has broken in respect of lump sum payments. The social contract involved in replacing the pre-1974 law with a comprehensive, no fault scheme, was simply to provide fair and just compensation. The contract should be seen as encompassing the whole scheme, not just that part of it relating to lump sums. In fact, the committee's proposed changes in this area will re-emphasise that "fair and just" provision.

The second point relates to the charge that the committee did not adequately consult with the interested parties and in fact kept the Accident Compensation Commission at arm's length. This is strongly disputed. The committee received approximately 200 submissions, consulted with several of the interested parties, and as far as the commission was concerned, met with the commissioners and other members of the commission's staff on numerous occasions. Their advice was keenly sought, and on numerous issues was adopted.

The committee was fully aware that some criticism was inevitable. Most of it has been quite predictable, and not difficult to refute. But a committee charged with the responsibility of reviewing such an important "concept" as the New Zealand Accident Compensation Scheme could not avoid making certain decisions simply because they were likely to criticised. Informed criticism is healthy and is to be encouraged. However, I would ask those who are still critical to stand back and look at the scheme in its entirety, and to attempt to divorce themselves from the narrow perspective of a sectional interest groups.

Derek Quigley is chairman of the Accident Compensation Cabinet/Caucus Committee

Letters

A dearth of golds

HAVING judged at the Annual Easter Show wine competitions, and been closely involved in the administration for the national wine competitions for some years, I have been in an excellent position to observe the dramatic changes in our wine industry.

Going back, not too many years, a significant proportion of wines, in both competitions, were so faulty that they should never have been entered. The general standard being very mediocre, to say the least, any wines which were clean, not oxidised, having no obvious faults and showing the slightest varietal character and flavour were in line for top awards and often got them. Not so now.

Happily, over the last decade, with the introduction of modern wine-making techniques, and the emergence of young, enthusiastic, well-trained winemakers, there has been an accelerating improvement in quality in table wines made from classical vinifera grapes, and a constant reduction in wines made from high yielding (but poor wine producing) hybrid grapes.

As quality has improved, so judging has become more critical and every visiting overseas judge after experiencing our competitions has affirmed that they are far more efficiently conducted, and much tougher than most judging in other countries.

This is all part of the answer to those people who wonder why only four gold medals for the 1980 national wine competitions were awarded.

There were very few wines presented which had obvious winemaking faults and to achieve even a bronze medal, a wine had to be a good example of a sound wine in its particular class. Wines showing "lack of character", "out of class" (that is possibly a good wine, but not having the characteristics of the type of wine it represented) and so on, were down-pointed.

The increase in total wines exhibited has been great and if there is the slightest doubt or controversy about a wine, it is recalled. The week at the Chateau was the hardest I have ever experienced — starting each day at 8.15 am, a short break for lunch, and finishing between 7 pm and 7.30 pm. Various alternatives have been discussed, including using two teams and reduced entries, to avoid this situation next year. Only two or three years ago, there were up to four or five Cabernet Sauvignons made — this year 28.

Similarly, Gewurztraminer has been multiplied from three to 25, and this is the story of Chardonnary (now 21), Chenin Blanc, Pinot Noir and other varieties. Tremendously exciting for the consumer, but creating much greater competition for the wine companies.

Apart from the fact that the 1979 vintage was a poor one (particularly for whites), and thus adversely affecting the wine quality, all this is the reason for fewer top awards.

The fact of the matter is that the overall quality of table wines has become so good, that to achieve a silver, a wine must be outstanding (some may develop into golds next year), and for a gold, superb. In other words, many bronze award winners are no longer wines to dismiss as rubbish, because a good proportion, until recently could well have been silvers.

Similarly, quite a number of silvers, only a year or two ago, would definitely have won golds. The criteria for each quality plateau have been raised, with judging becoming more and more serious accordingly, so that to win the coveted gold medals, our dedicated winemakers will be under increasing pressure to continuously maintain and improve quality and variety.

I am confident they are more than equal to the challenge.

Stanley L Harris,
President
Wine and Food Society of New Zealand (Inc)

Not under investigation

MY company is an importer of predominantly textile machinery and has been in operation for 41 years.

In your October 27 issue you published an article reporting the court cases in which an officer from Trade and Industry, Brian Pound, was accused of issuing special import licences to three importers who have since been prosecuted. Your article then went on to associate our company with "17 other firms" being investigated.

We feel confident you will wish to correct the implied impression that our company was under investigation. To reinforce our request we attach copies of letters solicited from both the Department of Customs and Trade and Industry and signed by the respective Ministers.

Please note that these copy letters are being sent to you simply to prove our point and are, therefore, not for publication.

We look forward to hearing that you will publish a suitable explanation to your article.

Roy A Hunt
Managing Director
Noel P Hunt and Co (NZ) Limited

WE acknowledge that your company is not — nor ever has been — under investigation as our October 27 article may have inferred. The situation was clarified in a subsequent article, published on November 10. — Editor

Air NZ staff not part of PSA

ONE of the problems of allowing airline public relations consultants to write articles *about tourism is that they carry* their habits of embroidery of reality with them wherever they go.

Gordon McLauchlan (*NBR* November 3) attributes Air New Zealand's inability to shed staff to "the powerful PSA". How this powerful organisation prevents this is not described.

The Public Service Association does not represent staff in Air New Zealand, does not consider "shedding staff" (let's call it adding to unemployment) a solution to Air New Zealand's problems, and does not think too highly therefore of an erroneous and partisan article or a newspaper that would carry it.

W E B Tucker
General Secretary
Public Service Association

WE accept that we erred in attributing the inability of Air New Zealand to shed staff to the "powerful PSA". The sentence in question should have referred to a number of powerful unions representing Air New Zealand staff (which, incidentally, seem to be accepting reality with wisdom and restraint). — Editor

Politics

A hint of desperation enters in the blue corner

by Colin James

THE National Party has been thinking up slogans to combat Social Credit. One bumper sticker eagerly thrust into my hands goes: "If Social Credit is the answer, it must have been a silly question."

It is good to see a bit of (albeit undergraduate) humour entering politics. The trade has become altogether too dour.

I've got some bumper stickers of my own. For Jim McLay: "Don't blame me, I voted Talboys." And for the said Talboys: "What, me vote?"

And after Roger Douglas doing it his way . . . and his way . . . and his way, how about for Derek Quigley: "I did it the only way."

New Zealand politics has not always been devoid of humour. There was quite an effective line in mouse jokes a few years back.

And for around 20 years there used to be the "funny money" label for Social Credit.

Unfortunately for latter day "funny money" scornsters, however, Social Credit now has sufficient political credibility to boomerang that label with: "The only funny money is in your pockets" — a telling point in times of heady inflation.

I suspect the same fate will befall the "silly question" bumper sticker.

Describing the National Government as the silly questions at issue will likely prove irresistably rib-tickling to opponents — and perhaps a good many voters.

Social Credit is no longer a joke. Too many people are taking it seriously for cheap jibes to work any more.

In fact, the National Party is taking Social Credit seriously. A number of initiatives have recently been launched to undermine the credibility of the league and its leader.

The Prime Minister mentioned one of them a couple of weeks back: a rural Government MP asks him or deputy Hugh Templeton a question on monetary policy, enticing Bruce Beetham into a supplementary question in which he is supposed to show his ignorance. Economist backbencher Ian McLean drives the point home with a mop-up supplementary.

For example, David Thomson (in Socred-vulnerable Taranaki) asked if the Reserve Bank was the only authority with the ability to create credit, to which the Prime Minister said it was the only institution with that ability "both in an unfettered form and at all times".

Beetham asked whether it was not true that "the private trading banks have always enjoyed this facility insofar as every extension of an overdraft creates a deposit and every repayment of an overdraft destroys one".

The Prime Minister: "That is where the whole theory of Social Credit falls down. Credit cannot be created except by the Reserve Bank, but then in accordance with Government policy. Other financial intermediaries can create credit only in accordance with the control exercised on them by the Reserve Bank in accordance with Government policy."

In another example, Templeton gave a short dissertation on the reasons for the increase in the velocity of money and accepted an invitation from John Falloon to reject the suggestion that "dumping money into the economy, as Social Credit suggests, will reduce the velocity of money".

Beetham then suggested that "the conscious and progressive reduction in the M1 money supply must be a critical factor in the increasing velocity of circulation".

Templeton: "It is impossible to follow a whole series of misbegotten statements. There is a combination . . . of factors in the total money supply. There is no conscious area where one can select one particular aggregate and say that that is what one will do."

You may wonder how much effect these clever stratagems would have even if the newspapers printed them in full each day. Since the vast bulk of the voters know no more of monetary theory than that however much something cost yesterday, it will cost more tomorrow and no matter how high the rate of interest on their savings, they will assuredly be worth less tomorrow, the immediate impact is not likely to be overwhelming.

Presumably the reputed monetary solecisms will be synthesised into convenient speech capsules for Nationalists. Perhaps there will be a few inspired articles in the press concluding for voters' *benefit that Beetham, a history* lecturer by trade, is an ignoramus on economics.

Does it matter? Will the voters take any notice and, if they do, will they be deterred from voting Social Credit because the occupiers of the commanding heights of high-inflation, high-unemployment, low-growth orthodoxy assert its monetary policies are hogwash?

If survey evidence is anything to go by, only a small percentage of Social Credit's voters vote for monetary reform, though more may have a vague feeling that the league shares their belief that something has gone wrong with the economy.

In a postal survey I did last year of Rangitikei only 5 per cent of Social Credit voters nominated the league's monetary or economic policy as one of five reasons that attracted them to it. Two per cent said it was the most important reason.

Another 15 per cent nomin*ated the party's philosophy in* general as one of the five reasons (6 per cent said it was the most important reason). But one should be careful about including all those as believing in the monetary reform ideas, given the much wider range of ideas behind Social Credit these days.

These findings were supported in answers to questions as to what needed doing about the economy and what were the most important problems facing the country. Only 5 per cent of Social Credit voters nominated interest rates or monetary reforms as one of three things that needed doing and only 3 per cent as one of three most important problems — far below inflation, strikes and unemployment.

Interestingly, the figures were not impressively higher among Social Credit members. Indeed, I have come across branch executives who are not much concerned about the monetary policies.

They have other concerns: the viability of small businesses; the survival of traditional moral and social values; the health of the democratic system; the need for decency in politics; and so on.

So, detailed refutation of Social Credit monetary theories is not likely to have much effect, a point National president George Chapman seems to have recognised. At the selection of the party's Rangitikei candidate a few weeks back, Chapman bypassed the A plus B windmill and rode straight on to the apocalypse.

The theme: straying Nationalists might not care for fine points of economic theory, but dallying with Social Credit could lead them unwittingly to a fate worse than death: socialism.

"Social Credit's economic policies, if ever implemented, would inevitably mean the control over all lending, increased controls over all sectors of the economy, rampant inflation and ultimately the end of private ownership of assets," said he.

"Its economic policies are further to the left than the Labour Party," he went on, warning of a Labour-Social Credit coalition in 1981.

Curious as it may seem, Rangitikei Socreds were not thrown into instant panic by this assault. Their common reaction the next day: "People won't believe it."

They are sure they are known to be for private enterprise, not against it. And as for coalitions (which Labour and Social Credit have always strenuously denied) one Socred went as far as to say that a coalition with National would be more natural than with Labour.

There is a quiet, solid confidence in the Social Credit camp in Rangitikei, that green thorn among the blue roses. The organisation seems to be well in place and geared up to go, its tentacles spread across the middle of the political spectrum.

By contrast, the predominant National mood is hope. The battered morale is improving, especially since East Coast Bays joined Rangitikei in ignominy.

They see evidence that some of the lost farming vote is returning and are pinning their hopes for headway in the towns (particularly Feilding, the key *to the electorate) on former* Taihape cop Paul Bardwell, chosen (decisively, from what I hear) over gentleman farmer Nick Tripe in the belief that he can, as one selection delegate put it, "get inside the door" of ordinary voters and counter Social Credit's pervasive presence on the ground.

No longer are they expecting Beetham to hand it to them by failing as a local MP or upsetting people. Local notables say that on the whole he has been attentive, approachable, effective (with one significant exception) and highly visible — a contrast with the two National predecessors, Sir Roy Jack and Les Gandar.

To which one might now add: judiciously and publicly remarried.

He is also at the head of a political movement that has developed considerable momentum.

In 1935 voters in their hundreds of thousands ignored dire warnings of doom and *destruction by voting in the* socialists. Chapman's flailings have a desperate ring about them — and communication of desperation to the electorate could not only be counterproductive, but fatal.

Introducing the Muldoon fiscal drag scapegoat

Economics Correspondent

FINANCE Minister Rob Muldoon has been consistent in his management of the economy, if nothing else. He has consistently skirted around the important economic issues of the day such as high unemployment, high inflation and low economic growth.

Occasions, traditionally reserved for outlining Government policy, have been used to publicise Muldoon's latest acquisitions in his stable of economic scapegoats. At the so-called Orewa state-of-the-nation address in January we met the international economy scapegoat — the world economy was blamed for this country's ills.

The inefficient industry scapegoat was introduced in the Budget. Muldoon predicted that the by the end of the decade, we would find ourselves with not much more than we started, if we did not rid ourselves of inefficiencies.

Last week's mini-budget introduced the latest member of Muldoon's economic stable – the fiscal drag scapegoat. As the mini-budget said, "one of the major factors which could lead to a decline in the economy in the short-term is the phenomenon known as fiscal drag".

Fiscal drag arises from the combination of a progressive income tax scale and rapidly increasing money incomes which result in an increase in the proportion of an individual's income which goes to pay taxes. It means that even if gross earnings keep pace with inflation, spending power is reduced because income tax bites into disposable income.

But the fiscal drag animal is an inferior scapegoat, as scapegoats go. Superior quality scapegoats are the ones which appear to be the most unruly and independent. When a scapegoat does mischief, governments can claim it is completely outside their control.

The world economy scapegoat is a particularly unruly animal. But Government can take measures such as changing the exchange rate and setting tariffs which can protect us from its worst lashings.

Inefficient industries are not so unruly. Their worst feature is that their behaviour does not follow a definable pattern. Nobody knows for certain or when or where an inefficient industry is going to pop up.

Unlike the others, the fiscal drag scapegoat's behaviour is entirely predictable. Fiscal drag is created by the Government and can be controlled by the Government.

Fiscal drag could be almost entirely wiped out if the Government really wanted to get rid of its bad effects. All Muldoon would need to do is index the tax scale so that as individual earnings rose, an individual's average tax rate would stay the same. An easier method would be to tax all incomes at the same proportional rate.

But, apparently, the Government thinks the public is ignorant about the causes of fiscal drag, and that they do not blame Government for taking more than its fair share of cost-of-living increases. Benjamin Franklin's precept that "in this world nothing can be said to be certain except for death and taxes" has become a law of nature in the public mind.

So that the Government, after squeezing tax dollars from households with declining living standards, can turn round and make out that a reduction in tax payments is some sort of special Christmas give-away. We, members of the public, must be extremely gullible. We are pleased when the Government gives back something which under different circumstances would have been ours in the first place.

Newspapers like Wellington's *Dominion* headlined that "Tax cuts give February pay packet boost". This headline was followed by a summary, based on the mini-budget, claiming that tax cuts ranging from $2 to $7 a week for most workers will be applied from next February.

Tax Cuts Do Not Actually Reduce Taxes for Many Taxpayers

BEGIN with taxpayer earning $14,000 taxable income this year.
Total tax (present tax scale): $4220.50. Average tax rate: 30.2 per cent

INCREASE this year's income to cover cost-of-living rises and so on to $16,600. With Muldoon's tax cuts —
Total tax (new tax scale): $5230. Average tax rate: 31.4 per cent

BUT the situation would be worse under present tax scale:
Total tax (present scale) on $16,600: $5543. Average tax rate: 33 per cent

But many workers may never see these so-called cuts.

By next February, salary and wage increases will put those in the public sector and many others in the private sector into higher marginal tax brackets. While their tax payments will be lower than they would have been if the mini-budget had not changed the tax scale, they will probably take a larger proportion of earners' income than previously.

Confused? An example may help. Take a person earning $14,000 this year. Annual tax on that income under the present tax scale is just over $4220, or 30.2 per cent of taxable income.

Say that person's taxable income keeps pace with inflation, increasing by 19 per cent on February 1 1981 to $16,660. Despite Muldoon's tax cuts, the tax on this amount will be $5320. The taxpayer will pay more than $1000 above the amount of tax paid in the previous year. And fiscal drag eats away at the taxpayers income as well, with the proportion of taxable income going to the Government rising from 30.2 per cent to 31.4 per cent.

The only consolation is that if Muldoon had not "cut" taxes in his mini-budget, the amount of tax on earnings of $16,660 would have been about $5543, $313 more than under the new tax scale. Instead of paying 31.4 per cent of taxable income to the Government, the taxpayer would have paid 33.3 per cent.

With its tax revenue rising rapidly this year, the Government had the flexibility to cut taxes by a lot more in the mini-budget. Since the cuts do not take effect until February, when the economy is expected to be growing slower than it is now, a larger cut would not necessarily contribute a great deal to inflation. And cuts for low-income families could have usefully stimulated demand for locally produced household goods.

But it appears that Muldoon prefers to keep the fiscal drag scapegoat safely stabled away for a while longer. Since the animal continues to voraciously consume tax, the Government can save up another "tax cut" for a rainy day.

And are there any bets that that rainy day will come sometime in June or July next year? Just in time to put a little money back into taxpayers pockets before the next election.

Meagre sustenance from mini-budget stimuli

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses the company accounts.

THE days of annual Budgets which set the country's economic course for the next 12 months without further policy measures are gone forever.

Finance Minister Rob Muldoon's mini-budget last week was probably the first of a series of measures which will be announced before the next annual Budget.

Muldoon said as much after presenting his statement to Parliament, when he commented to the press that further measures would be taken if they were needed in the new year.

The basics of the mini-budget were much as expected, and the immediate reaction could have been written the day before. A 5.5 per cent tax reduction was greeted with derision or acclaim depending on which section of the political spectrum — employers, or unions was doing the talking.

From a business viewpoint there were two main points which will give mild stimulus to activity.

The tax cuts, although modest, add up to a sizeable dollar sum. The additional money should have a flow-on to retail spending but it will help arrest a downturn rather than open the taps for substantial consumer spending.

And that sustenance should, in turn, maintain present production in the manufacturing sector for the domestic economy, the area which is the base for expansion into export activity.

When Muldoon gave his broad outline for the proposed policy measures to the Lower Hutt Chamber of Commece in late October he said the Government would be prepared to let some economic indicators "get a little out of line" (*NBR* November 3).

At that time we commented that, by inference, the money supply would be allowed to grow a little more than has been the case in recent months.

There will be an increase of $50 million in the budgetary deficit before borrowing this financial year, and an estimated $450 million in 1981-82.

Muldoon said last week that these deficits were likely to increase the rate of monetary growth.

In the year to October, the narrowly defined money supply, M1 grew 12.4 per cent according to provisional figures released by the Reserve Bank last week, while the wider (and generally regarded more important) M3 went up by 14.2 per cent.

The corresponding figures for the September year were respectively 10.1 and 14.8 per cent.

These changes are a substantial downturn from the position a year ago. All aggregates are now below the rate of inflation.

When discussing the possibilities for the mini-budget on November 13, it was suggested that the "trick will be the usual one; to stimulate without letting the important inflation indicator get too far 'out of line'."

Talk of a devaluation was a curious side issue to this mini-budget. Unless a major economic package was to be put together it is difficult to see how a sizeable devaluation would work.

Muldoon had talked repeatedly of "fine-tuning", and, by definition, that excluded a massive structural change to economic policies, including action on company taxation, possibly on export incentives and so on.

The Government at present appears wedded to the concept of a gradual downward shift of the $NZ in line with its overall policy of "gradualism", and a large devaluation is hardly "gradualism", irrespective of its economic merits when combined with other significant policy changes.

Business, particularly the "small" business person, should benefit from the employment subsidy policy and the availability of funds from the Development Finance Corporation in the form of cumulative preference shares to finance expansion.

Both these moves are good examples of how the "free market" philosophy is adapted to take account of realities.

While the employment benefit of $3000 for two years is described as a suspensory loan, it is actually a wage subsidy, if the job still exists after 12 months (when half is written off) or two years, when the balance is written off.

The scheme is designed as an alternative to the dole, and roughly equivalent to about half the dole payment each year. To that extent it transfers one form of government expenditure to another, which is considered more productive.

The cumulative preference share scheme will depend on the individual attaching to the shares when the DFC subscribes to a particular company. If it is below general market rates, that too amounts to a form of subsidy, although the small business also benefits from having the money in the form of capital, which keeps the financial gearing in balance.

The scheme is intended to have practical relevance to small business problems, but there is a danger in this approach.

It is too easy to lose sight of the fact that some complaints from small business disguise the lack of skills in the complainants. The large proportion of small businesses are run by people with drive, who are hardworking and put up with difficulties in building up an enterprise.

But there are some (and they are not hard to identify if one is close to the overall business scene) who think that you can run a business between 9 and 5 and take every weekend off. If the proposals for small business perpetuate that myth among the few who believe it, they could do harm.

Retail activity may be sustained by mini-budget

Peter Fels ... DIC shares "absurdly low"

THE mini-budget appeared to underpin the sharemarket last week, rather than give it another boost.

In some cases it is difficult to assess the real impact of the Government's proposals because they were inevitably only part of the mix which goes into the many factors affecting a market.

The movement in retail shares is an example. The mini-budget should maintain retail activity in the coming months, and may help Christmas trading, if individuals decide to spend their tax reductions in advance of receipt.

The DIC's shares jumped 10 cents on Wednesday, after a 5c gain on Tuesday, but the mini-budget was not the only influence on the company's share price.

Finance Minister Rob Muldoon's statement coincided with reports of the DIC's annual meeting. Shareholders were told that pre-tax profit in the first four months of this year was 17 per cent ahead of the same period in 1979, that the company has budgeted for sales of $50 million in 1980-81, compared with actual turnover of $43.4 million last year, and that the group has 11 years of dividends from tax free sources available for future distributions.

The tax free sources arise from the creation of DIC Properties Ltd, a subsidiary which would control the parent company's property-owning and leasing operations.

Chairman Peter Fels said an agreement for sale and purchase between DIC and DIC Properties has been completed and transfers are being processed.

DIC is not the first company to get into this procedure, which frees up a realised capital gain and makes it available for distribution, by transferring properties to a subsidiary at their true value, rather than the book value or the amount which arises from a revaluation of assets.

A company is unable to make a cash distribution from a non-realised capital reserve, but there is nothing to stop it "realising" the gain by a transfer such as DIC has embarked on.

Fels also told the meeting that the present share price was "absurdly low" and said any shareholder intending to sell should hold but for a much higher price.

There are few company chairman who will state publicly that their shares are fairly priced, but Fels has a strong point when he makes the claim for DIC.

Last year the company paid a dividend of 16c a share (16 per cent) tax free and covered the payment 2.7 times.

The shares moved up to $1.85 last Wednesday. At that price the actual dividend yield was 8.65 per cent.

The effective yield, assuming a tax free dividend of 16 per cent in the current term, is 21.6 per cent for an individual on a marginal tax rate of 60c in the dollar.

An investor would need a pre-tax return of 21.6 per cent from an alternative investment to equate with the DIC, assuming the company pays a full tax-free dividend.

Retailers have problems at present, in spite of the mini-budget's possible stimulation of consumer spending.

The industry has a high labour content which is difficult to lower, particularly in the general and department store section, which, unlike supermarkets, has difficulty installing checkout alleys.

Saturday trading could be another problem, because the stores may open to get the same total amount of retail spending which previously crossed the counters between Monday and Friday.

If they fail to lift turnover in real terms beyond the rise in overheads, there must be either price increases or an erosion of margins.

While those problems exist and should not be underestimated, the DIC has attraction at current prices for people seeking a high tax-free yield from a dividend which is well covered, and likely to be well-covered again this year.

There appears to be some leeway in the share price before it is fully valued.

Brierley Investments' shares charged ahead in the rundown to last week's annual meeting.

Cum bonus trading closed at $4.60, compared with a price of $3.82 when they went ex the cash issue in early November. A price rise of 17 per cent in three weeks for a high priced stock is unusual, even in these bullish times. But if history repeats itself, the theoretical ex bonus price of $3.45 should move up again in the coming months.

NOTE: The writer neither owns, nor has a beneficial interest in, DIC or Brierley shares.

O'Brien on business

Analysing accounts: Andas and Clyde Group

INTERESTING information gets hidden in the annual reports of listed companies when directors decide to say nothing about it.

The annual reports of Andas Group (formerly Armstrong and Springhall) and Clyde Group have examples of balance sheet changes which should be explained to the shareholders and other 'audiences'.

Both companies held their annual meetings on Friday, after *NBR* went to press, so the directors may have responded to shareholders' questions. That would be a good thing, but it would be better if the companies included the explanatory information in their reports.

In the case of Andas, the report includes 12 pages of straight advertising for the company, its products, and operational methods, an amount of space equal to that given to the accounts, notes, and directors' and managing director's reports.

The company's profit and loss accounts show a strong recovery from the disastrous year in 1979, when net profit after taxation fell from $417,870 to $98,694 compared with $632,992 in 1977.

This year the group improved net profit to $288,595, and covered its 14 per cent dividend, a feat which was beyond it in 1979.

Sales were up 13.6 per cent, but the gross profit increased only 10.8 per cent, with a consequent cut in the gross operating margin. The company held general expenses to a rise of only 7.6 per cent, and increased pre-tax profit from $152,997 in 1979 to $471,664.

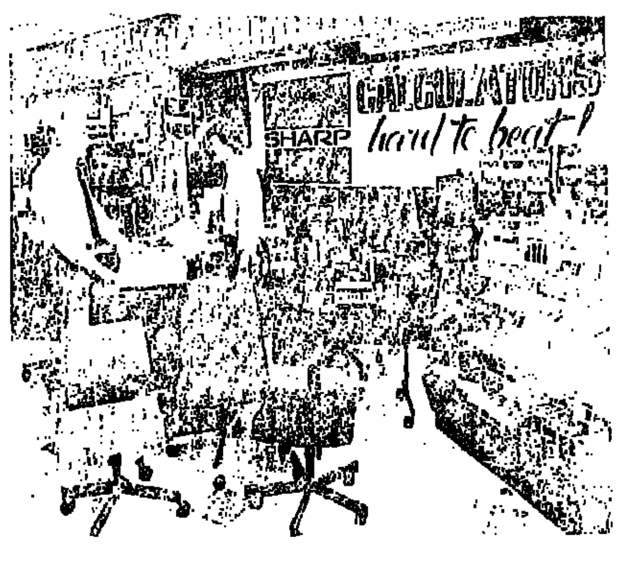
That result was reasonable in view of the difficulties associated with the office equipment market, and the problems which occurred in some subsidiaries in recent years.

The consolidated balance sheet looks straightforward, with a tight control over stocks, debtors, creditors, and the other items which can get out of hand and cause headaches.

Bank overdraft jumped 58 per cent to $1,229,729, but there is no explanation why this should happen in a year of consolidation.

The clue comes in the fixed assets section of the balance sheet. Andas' "motor vehicles" went from a book value of $213,331 in 1979 to $519,746 last year. That may seem a minor movement in relation to the asset values of many other companies, but it is an increase of 143.6 per cent, and has to be considered in relation to the total size of Andas, whose total assets have a book value of only $11.9 million.

That should be worth a line or two in the annual report. What happened? Did the company have to replace an existing fleet suddenly? Did it expand the fleet last year for reasons which are not stated in the report? Or has the group decided to buy a couple of Mercedes for status?



Product pics ... same space as accounts

The shareholders might like to know, since their money is invested in whatever vehicles were bought for whatever purpose.

The Clyde accounts also contain a substantial rise in overdraft; from $692,000 to $1,226,000, but again no reason is given in the report.

A clue is found in the statement of changes in financial position. Cash flow from operations was $1,412,000 to which is added the bank overdraft increase and a slight reduction of $25,000 for cash at bank, giving a total of $1,921,000.

Purchase of fixed assets took $408,000, working capital improved by a net $506,000, and repayment of term liabilities accounted for $610,000.

While it is difficult, and unwise, to isolate particular flows from the "bag of money", it appears that the rise in overdraft might be partly related to the repayment of term liabilities.

The company paid off a mortgage worth $53,000 in the 1979 books, it replaced a term loan of $400,000 payable, this year and carrying interest at 14 per cent a year, with four separate loans of $40,000 repayable from 1981 to 1984 and a $20,000 loan repayable in 1985.

The interest rate on the loan repaid, and on the new loans, is 14 per cent. In addition, a $429,000 mortgage repayable in 1982 was reduced to $92,000 during the year.

Clyde had a difficult year, with trading profit after tax, and before extraordinary items and minority interests, falling from 1979's $567,000 to $308,000, which is less than 2 per cent on sales of $18 million.

The latter were also down by 16.6 per cent from the previous year's $21.7 million, but part of the reduction related to the disposal of the Atlas Steels subsidiary. The effective sales fall was about 5 per cent after allowance for Atlas, according to the report.

The company blames a dramatic drop in the agricultural equipment market for most of the problems, which seriously affected farm tractor sales. The agricultural equipment business, including tractors, is highly competitive in this country, and any downturn eats further into margins.

O'Brien on business

Greatest invention since sliced bread

THERE is room for everyone in New Zealand Ltd, also known as Fletcher Challenge Corporation Ltd.

The documents for the proposed merger show that the company will have the largest board of any organisation in this country, with 24 people sitting around the table.

It may drop to 23, following the resignation of Don Clark last week from his position as managing director of Broadlands Finance Ltd, now the finance company arm of Challenge Corporation after the takeover in 1979.

A place was found for all the executive and non-executive directors of Challenge and Fletcher, but a few Tasman people missed out in the reshuffle.

The documents for the scheme of arrangement are a formidable collection of statements, and it is doubtful if the bulk of small shareholders will digest them thoroughly in the countdown to the special meetings of the three companies.

I particularly liked the tastefulness of the various proxy forms. There is a blue one and a green one and a yellow one, and a white one, but no red one, which would have completed the line of the song.

The inclusion of a red one could lead to the unfortunate view that "they are all made out of ticky tacky", but that would be an unwarranted, vicious, attack on the greatest invention since sliced bread and motherhood.

It is also unfortunate, given the connotations with "New Zealand Ltd" and sundry other rude comments flying around, that the blue form should be titled a "notice of election" for the use of specified preference shareholders.

Blue is an appropriate colour for inclusion in the formal process of putting together New Zealand's biggest company, but the "notice of election" title will no doubt give rise to more scurrilous little jokes about this organisation.

The 39-page document has interesting information, particularly in the report of the independent accountant, Markham and Partners' Bob Pope, who is also president of the New Zealand Society of Accountants.

In passing, it should be noted that you do not mess around when you are putting together an organisation like the Corporation. The president of the Society of Accountants is the obvious person to examine the scheme from an independent viewpoint. The documentation and meeting procedure involved three of the country's top law firms. The High Court, as it must do, issued orders convening meetings of Challenge, Fletcher and Challenge to discuss and/or approve the proposal.

The wonder is that they failed to rustle up a full bench to give this matter the importance which is its due.

Two aspects of Pope's report sent investment analysts and others back to their calculators.

He has made various financial deductions, based on a dividend rate of 28 per cent for the new organisation. Most people inolved in investment analysis had assumed a maximum rate of 25 per cent, with some opting for a lower figure.

Pope's figure may have been used to illustrate the outcome of the share swap and scheme of arrangement, but it seems to have had a quick effect on the sharemarket.

The other interesting point is the comment that the public shareholders in Tasman do well out of the changed dividend yields.

"The increased yield would appear to benefit significantly the holders of Tasman shares, compared with Challenge and Fletcher. However, the source of the benefit, namely the freeing of Tasman profits for distribution, flows on to the latter companies through their controlling shareholdings in Tasman.

"While there is undoubtedly a somewhat greater advantage to the public holders of Tasman shares, in my opinion this is not to the disadvantage of the Challenge and Fletcher shareholders".

According to Pope, ex-Challenge shareholders will receive a 40 per cent increase in dividend yield from a dividend of 14 cents a share, Fletcher shareholders increase their yield 62 per cent, and Tasman shareholders benefit to the extent of 117 per cent.

The documents are bulky, include a considerable amount of legal jargon, but that only illustrates the technical complexity of organising this merger.

Don Clarke . . . resigned last week

There may be some discussion at the various meetings on December 17 (Challenge and Fletcher; will they have closed-circuit television between Auckland and Wellington?) and December 18 (Tasman), but a betting man would be a fool to take odds that this merger will fail to gain overwhelming support from the shareholders.

Mind you, it would not be the first time that a dominant force obtained, say, 99 per cent of the votes cast in a ballot. Oh dear, there we go again, making nasty comparisons.

Stock Exchange weekly review

FOR WEEK FRIDAY NOVEMBER 21 TO THURSDAY NOVEMBER 27

	Last sale	Week's high	Week's low	Turnover
AIRWORK,50C	140	140	140	4200
7.5% PR	...	...	...	0
6% PR	...	...	...	0
AJAX G.K.N.	295	...	...	0
A.J.WHITE	125	...	...	0
11.5% CONV PR	105	...	...	0
ALCAN,50C	175	175	170	6200
A.H.I.	232	232	224	58100
ALLIANCE,50C	75	75	68	51700
12% CONV PR	58	58	55	800
ALLFLEX	130	130	127	19700
ALLIED FARMERS	340	345	340	9200
12% CONV PR	345	...	...	0
ALLOY STEEL	210	...	...	0
A.H.BISLEY, 50C	225	225	220	3200
AMPOL PET.,50C	266	...	...	0
A.BEAVEN	137	140	135	47300
11% CONV NTS	115	120	115	2100
11.5% CONV PR	115	115	115	5000
AMDAS GROUP	120	120	120	1200
5-6.5% PR	43	...	...	0
12% CONV PR	95	...	...	0
ANZ BANKING GROUP	298	278	250	45600
A.WRIGHT	250	...	...	0
"A" 6-7.5% PR	80	...	...	0
"B" 5-6% PR	60	...	...	0
A.BARNETT	245	245	240	26600
A.ELLIS	30	30	25	13500
ASHBY BERGH	368	...	...	0
A.B.CABLES	195	195	195	1000
ATLAS, 50C	31	32	28	14200
10% CONV PR	31	31	31	800
AUCK.GAS	475	475	470	6300
AURORA,50C	212	212	202	37500
10% CONV PR	260	...	...	0
14% CONV NTS	150	150	150	100
CONV NTS '84	150	150	150	6600
A.C.I.	270	...	...	0
AUTOCRAT HOLDS	160	163	160	8100
BAILLIE,50C	67	67	65	5300
BALLINS,50C	92	92	68	166700
11% CONV PR	75	...	...	0
BANK NSW	410	410	400	10600
BEACH PETR.,50C	230	...	...	0
BING HARRIS, 50C	80	80	75	15300
B.N.Z. FINANCE	310	310	300	1700
BRIDGEVALE,50C	180	180	160	3000
BRIERLEY, 50C	472	472	445	34260
12.5% SPEC PR	...	...	...	0
BOS, 50C	58	58	55	1400
B.H.P., 200C	2300	2350	2300	2575
BROTHER, 50C	65	65	65	1400
BUNTING,50C	115	115	115	37900
BURKES CAT.,50C	160	...	...	0
C.P.D.	240	253	240	19800
7-9% "A" PR	...	...	...	0
5% "B" PR	...	...	...	0
10% CONV PR	210	210	210	100
C.I.C.A.	215	217	215	19900
11% CONV PR	175	175	170	600
C.F.M.	270	270	265	9500
12% CONV PR	160	160	160	2700
CANT.FLOUR	220	...	...	0
CANT.TIMBER	370	380	370	9700
12% CONV REF	340	340	340	900
CAPITAL RADIO, 25C	130	...	...	0
CAPITAL LIFE,50C	70	70	70	100
CARBONIC ICE	280	...	...	0
CARTER HOLT	396	400	390	36000
CERAMCO	212	214	210	27400
17% CONV PR	105	105	105	3800
CHALLENGE	435	438	420	160150
16% CON PREF	400	400	395	20200
CHENERY	180	185	180	2000
CH'CH.GAS	210	210	210	400
CH'CH PRESS	310	...	...	0
CITY REALTIES,10C	34	34	33	9000
CLYDE GROUP	105	105	100	7400
12% CONV PR	95	...	...	0
COLLINGWOOD,50C	38	38	36	1600
13% CONV PR	38	...	...	0
COL.MOTOR	220	220	220	3600
CON NTS 10%	135	...	...	0
COLYER WATSON	112	112	108	1300
COMALCO,50C	660	...	...	0
COMMAND	160	...	...	0
CBA FINANCE	235	235	232	12600
CON.METAL,50C	175	175	175	100
CON.SILVER,4C	22	22	16	168030
COOKS WINE	140	140	140	9400
CORY-WRIGHT	125	125	125	1100
12% CONV PR	125	125	110	1200
16.25% CONV PR	...	...	...	0
CROWN CONSOLIDATED	220	227	220	10800
11% CONV PR	190	190	185	1180
C.S.R	1070	...	...	0
CYCLONE,50C	240	...	...	0
DALGETY(N.Z)	260	260	260	28900
DALHOFF & KING,50C	70	70	65	16000
DEANES	138	...	...	0
D.I.C	185	185	170	5600
12% CONV PR	130	130	130	1200
DINGWALL & PAULGER	185	185	185	3700
D.MCL WALLACE,50C	130	130	114	100700
12% CONV NTS '79	...	...	...	0
11% NTS '82	110	110	108	5200
8% CONV NTS	82	82	75	10000
D.I.B.A	68	...	...	0
DOM.BREW.,50C	107	107	89	132700
11% CONV PR	58	58	54	13000
DONAGHY'S	280	280	260	55900
12% CONV PR	320	320	320	100
D.R.G.,50C	87	87	87	4400
DUNLOP (NZ)	345	345	345	1200
4.5% PR	45	...	...	0
EBBETT	120	120	120	1000
EDDS,50C	100	100	100	7700
E L'STEIN,50C	270	270	260	5000
EMPEROR MINES,10C	810	...	...	0
ENDEAVOUR	156	156	153	29800
E.ADAMS	175	...	...	0
EUROPA PREF NT	90	90	90	7900
F.T.C.,50C	112	113	112	42200
11% CONV PR	82	82	80	9600
F.WAIMAK,50C	60	...	...	0
FELTEX,50C	159	159	151	98500
5% PR	41	...	...	0
FIRESTONE NZ	130	130	127	5000
FISHER & PAYKEL	218	218	212	15800
FLETCHER	555	558	540	64550
15% CONV PR	108	112	108	23500
FOUNTAIN CORP	132	132	130	4300
FREIGHTWAYS, 50C	162	190	162	18100
10% CONV PR	117	117	110	1100
GEAR	55	55	52	2100
11.5% CONV PR	63	...	...	0
GEN.FINANCE	200	...	...	0
G.COURT	130	...	...	0
G.J.COLES,50C	277	...	...	0
GOLDEN BAY,50C	49	50	48	45900
GOODMAN GROUP	330	330	330	881700
14% CONV PR	256	256	255	47400
GROSVENOR PROPS, 25C	58	58	58	400
HALLENSTEIN	240	250	240	1500

	Last sale	Week's high	Week's low	Turnover
HAURAKI ENTERPRISES,25C	140	143	140	1700
HAWKINS,50C	58	58	58	6100
6.5% PR	...	...	...	0
H.B. FARMERS	280	280	273	9900
13% CONV PR	200	200	190	8100
HAYWRIGHTS 5 PREF	65	...	...	0
HEALING	310	310	305	17200
10% DEB	...	...	...	0
12% CONV PR	305	...	...	0
H.POLLARD	3445	355	345	1100
10% CONV PR	220	...	...	0
HENRY BERRY,50C	168	173	168	2400
10% DEBS	235	...	...	0
HOOKER,50C	73	...	...	0
HUME INDUSTRIES	108	108	106	2100
5-7.5% PT PR	40	...	...	0
10% CONV DEBS	115	...	...	0
I.C.I.(AUST)	155	...	...	0
I.C.I.(NZ)	210	210	200	15900
IND BROADCASTING	115	...	...	0
INDEPENDENT NEWS	162	162	160	9100
IND.CHEM,50C	170	170	170	1000
INTERTASMAN NZ,50C	...	...	...	0
I.W.DOW,50C	280	280	265	111600
JAMES AVIATION	325	...	...	0
JAMES SMITH 50C	85	85	85	200
14% CONV PR	57	...	...	0
J.E. WATSON	380	380	380	1300
12% CONV PR	295	...	...	0
J.BURNS	103	103	102	5000
12% CONV PR	190	190	190	200
JOHN EDMOND	190	190	190	4200
J.WEBSTER 50C	48	48	46	2700
17% CONV PR	40	...	...	0
J.MERCER INDS., 200C	70	...	...	0
5.25-6.25% PR	...	...	...	0
J.NATHAN	120	120	120	4600
6.5% PR	125	...	...	0
11% CONV DEBS	140	...	...	0
J.RATTRAY	225	225	225	1600
12.5% CONV PR	130	...	...	0
KEARNS-OATINA, 200C	210	...	...	0
L.W.RUDKIN,50C	117	118	114	44400
12% CONV PR	85	92	85	9500
LANES,50C	50	50	50	500
L.D.NATHAN	206	210	203	140200
9.5% CONV DEBS	180	...	...	0
CONV PR	192	192	190	2900
LEYLAND,50C	125	...	...	0
LION, 50C	132	133	123	116500
10% CONV PR	109	109	100	9300
12% CONV PR	96	96	92	3700
L.&M.OIL,50C	35	35	35	12400
LUSTEROID	380	380	380	100
MAINZEAL CORP,50C	135	135	135	1000
15% CONV PR	72	72	72	1000
MAIR,50C	217	217	205	5600
11% CONV PR	165	...	...	0
MANAWATU,50C	110	110	110	1700
MANTHEL	165	165	165	100
MARAC	325	325	318	6400
MCALPINE,50C	70	70	70	26800
MCKECHNIE	225	225	225	1100
MIDLAND	220	220	220	3500
11% CONV PR	185	...	...	0
MIN.RESOURCES,20C	98	100	97	45400
M.O'BRIEN,50C	70	70	67	7900
12% CONV PR	54	...	...	0
MONTANA,50C	165	168	162	25700
M-P.I.M.	195	...	...	0
11% CONV NTS	200	...	...	0
13% CONV PR	3	...	...	0
MOTOR HOLDS.,50C	159	160	157	48200
12.5% PR	...	...	...	0
MOTOR TRAD.,50C	57	58	57	25700
5-6% PR	46	...	...	0
11.5% CONV PR	50	50	50	1400
MSI CORPN,50C	104	108	103	61500
12% CONV PR	102	102	102	7000
MT.COOK	178	178	177	18400
M.I.M.HOLDS.,50C	706	...	...	0
NAT.INSCE, 50C	205	208	205	28900
NATIONAL TRADING	...	...	...	0
8% PR	...	...	...	0
NAYLOR	145	...	...	0
5% PR	...	...	...	0
NEIL HOLDINGS, 50C	47	47	42	59500
N.Z.CEMENT	102	102	98	8700
N.Z.F.C.,50C	112	112	110	36700
11% CONV PR	92	92	92	1700
N.Z.FARM FERT.	185	187	182	11100
12% CONV PR	142	142	140	1100
14% CONV PR	135	135	135	1500
N.Z.F.P.	432	432	415	101500
N.Z.I.G.	365	365	365	700
5.5% PR	40	...	...	0
N.Z.I.	272	272	267	39600
10% CONV PR	170	170	170	3300
N.Z.LAND,50C	18	18	17	1800
N.Z.LEATHERS	50	50	35	17200
N.Z.MOTOR BODIES	85	85	85	10100
N.Z.M.C	167	167	159	44400
N.Z.NEWS	193	195	192	112300
N.Z.PETROL,50C	720	720	650	4200
N.Z.REFINING	115	115	115	14200
N.Z.STEEL	190	195	189	49500
N.Z.UNITED	600	...	...	0
NIVEN INDUSTRIES	105	...	...	0
NUHAKA	250	250	230	6000
ODLINS, 50C	95	98	93	137300
"A" 6% PR	20	...	...	0
12.5% CONV PR	70	70	64	68000
"B" 13% CONV PR	66	66	63	2600
OPTICAL HOLDINGS, 50C	60	60	60	3800
12% CONV PR	45	...	...	0
OTAGO PRESS & PROD	125	125	125	300
PAVROC HOLDINGS	120	120	115	14200
P.D.L.HOLDS,50C	170	170	165	27000
PERM.INVEST	85	...	...	0
PHILLIPPS & IMPEY,50C	150	150	146	28900
PRESTIGE,50C	90	90	87	45000
PRINT & PACKAGING	215	215	210	20300
11.5% CONV PR	185	185	185	100
PROGRESSIVE	440	440	420	2700
12% CONV PR	800	...	...	0
PROP.SECURITIES,50C	170	170	170	3300
PRUD.BUILDING	110	...	...	0
QUILL MORRIS,50C	115	115	115	1700
12% CONV PR	100			
RADIO AVON, 25C	132	132	132	2800
RADIO OTAGO	130	...	...	0
REGINA	105	...	...	0
R & W HELLABY	175	175	170	11700
REID FARMERS	250	...	...	0
REPCO(NZ),50C	70	70	70	18500
10% CONV DEBS	92	...	...	0
REVERTEX	300	300	300	300
REX CONSOL.	137	258	137	1100
CON PR	...	...	...	0
RHEEM,50C	150	150	150	4200
RICKSTAN,50C	242	...	...	0
ROTHMANS,50C	118	120	115	26300
R.W.SAUNDERS	320	...	...	0
SALMOND	195	195	190	1200

	Last sale	Week's high	Week's low	Turnover
SANFORD	335	...	...	0
PR	135	...	...	0
12% CONV PR	250	250	250	700
12% "A" CONV PR	235	...	...	0
SCHOFIELD	135	135	135	1700
SCOTT,50C	78	78	78	9200
12.5% CONV PR	55	55	55	400
SELBY	235	...	...	0
SKELLERUP,50C	310	310	308	9500
5-7.5% PR	36	...	...	0
SMITH BIOLAB,50C	165	165	163	11500
12% CONV PR	135	...	...	0
SMITHS C.M.	142	146	140	9600
STH. BRITISH	290	292	278	45700
STHN. CROSS HOTEL	150	150	150	1700
STHN CROSS MINS.,20C	68	72	60	66500
S.F.M.	210	212	200	91800
SPEDDING, 50C	60	60	60	5300
12% CONV PR	70	70	70	300
STEEL & TUBE, 50C	112	112	108	105100
SUCKLING	170	...	...	0
TASMAN, 50C	510	518	495	75350
RED PR	...	...	...	0
PART PR	...	...	...	0
TAYLORS	125	125	125	500
12% CONV PR	116	...	...	0
TELTHERM	140	140	140	800
12% CONV PR	122	...	...	0
T J EDMONDS	345	345	335	8600
TOLLEY	128	128	125	1900
TOUR FIJI	38	...	...	0
TRANS ASHBURTON, 50C	50	...	...	0
TNL GROUP, 50C	94	95	94	55600
10% CONV PR	77	77	75	2400
12% CONV PR	80	80	75	3500
TRANS (NTH. CANT.)	103	105	103	1300
13.5% CONV PR	90	...	...	0
15% CONV PR	95	...	...	0
U.D.C.	147	...	...	0
U.E.B.,50C	103	106	103	291000
6.5-7.5% PR	115	...	...	0
12% CONV PR	86	89	87	6400
15% CONV PR	59	59	58	11300
UNITED STEAM SHIP	82	...	...	0
5.5% PR	78	...	...	0
UNITED BLDG	100	...	...	0
UNITED PUBLISHING,50C	235	...	...	0
VACATION,50C	57	60	57	5600
12% CONV PR	50	50	50	1400
12.5% CONV PR	50	...	...	0
WAITAKI-NZR	218	220	216	24800
11.5% CONV PR	167	170	165	5900
12% DEBS	165	...	...	0
WALKER & HALL	450	450	450	150
WATTIE,50C	138	143	136	80600
12.5% CONV PR	80	85	80	13700
WELGAS	450	450	450	300
WILKINS & DAVIES	210	210	210	500
5.75-7.5% PR	50	...	...	0
W.JEFFERY	150	150	150	5000
12% CONV PR	115	115	115	1000
WILSON & HORTON	380	380	380	1300
WILSON DISTILLERS	90	...	...	0
WILSON NEILL	125	125	125	22100
12% CONV PR	160	...	...	0
WINSTONE,50C	87	90	86	177400
12% CONV PR	60	62	60	13500
W'WTHS (NZ) PROPS, 200C	72	...	...	0
5.75% PR	72	72	72	700
W'WTHS AUST, 50C	245	...	...	0
WORMALD	275	275	275	1700
5-7.5% PR	100	...	...	0
W.R.CARPENTER,50C	246	...	...	0
W.SUTHERLAND	130	...	...	0
YATES CORP	390	390	382	5700
CONV PR	150	150	150	100

Primary industry

Farmers pressuring agents into cutting costs

by Rae Mazengarb

STOCK and station agents are being pressured by farmers to compete for business by cutting costs.

They deny they are not competitive.

"We maintain competition exists in more things than money," Stock and Station Agents Association general manager Lindsay Simpson said last week.

That argument will probably form the basis of the agents' submissions to the Commerce Commission's public inquiry into stock and station agents' fees.

Competition derived from the quality and sufficiency of service, Simpson said. The telling factor was that farmers — although free to deal with a number of agents — tended to stick to a particular agent on a regular basis. But that custom depended on the quality of service provided, Simpson said.

But farmers say that competitiveness should extend to price.

"It's fair to say most farmers are concerned mainly about cost," said a Federated Farmers spokesman.

The Commerce Commission inquiry is being held in accord with recommendations from the Examiner of Commercial Practices, with whom Federated Farmers laid a complaint last year.

The complaint is against the collective setting of stock and station agents' fees by their association, a practice approved by the commission in 1978 subject to certain conditions.

The commission decided then that sale fees should clearly show that they were to be considered a maximum, and hence allow for competition between companies.

Federated Farmers claims that those conditions have not been put into practice; that stock and station agents had not been properly informed that the scale was a maximum and that they were free to charge lower fees without fear of sanctions; that the result had been collective agreements which precluded the negotiation of fees lower than the scale.

Investigations of the complaints uncovered evidence to suggest that individual farmers had failed to negotiate lower fees and charges.

None of the companies could instance a case where fees, below the scale, had been successfully negotiated since the 1978 decision.

The examiner recommended the commission revoke its approval of the collective pricing operations by the association and recommended agreements be approved subject to the new conditions.

Association members would be given six months to revoke or amend any rule which conflicted with the requirement that fee scales clearly indicate they are maximum fees; and the current scale of fees would be deemed to have been ensued in terms of the approval.

A Federated Farmers spokesman told *NBR* that this organisation merely wanted to secure effective competition among the agents.

"We're having collusion," he said, despite the conditions laid down in 1978.

Farmers in theory had the power to negotiate lower prices, but in practice there was no room for it, he said.

Simpson said he was unhappy about the farmers' complaint. "It's quite undeserved," he said.

Since the 1978 decision companies knew they were free to cut fees, Simpson said.

This had not happened in practice because the cost of supplying the service today was so high, and "I'm not sure many companies would be able to cut . . ."

Asked if the accounts of the various companies would be presented as part of the agents' case, Simpson said no thought had yet been given to the formulation of evidence.

A hearing date has not been set but the commission has called for application for party status by those who wish to present evidence at the substantive inquiry.

The examiner gains automatic status under the provisions of the Commerce Act.

Fitzgeralds say comment wrong

JIM and Audrey Fitzgerald have objected strongly to Bob Edlin's editorial comment in last week's issue of *NBR* that they secured the Marginal Lands Board loan by "persistent lobbying and unabashed exploitation of their family connections in Cabinet".

The Fitzgeralds maintain this comment to be wrong on three counts:-

First, they note the finding of the commission of inquiry on page 109 of the report that the Fitzgeralds obtained the loan on the merits of their case and that their "political connections had nothing to do with it".

Second, they say the words "persistent lobbying" have overtones of continuous-behind-the-scenes activity and "are quite inappropriate" to describe their actions as set out in the commission's report. These actions, during the nine-month period in question, were:

(a) One formal visit to the Minister of Lands;

(b) One dinner conversation overheard by Duncan MacIntyre;

(c) The official dialogue between the Fitzgeralds and the Marginal Lands Board (excluding the Minister of Lands) and its committees.

Third, they say that words "unabashed exploitation of family connections" are a gross misrepresentation of their actions listed above.

The Fitzgeralds consider that Edlin's comments "are typical of comments uttered in Parliament and by the news media that have misled the public seriously, and caused the Marginal Lands Board loan to have received quite excessive amounts of publicity and criticism, and to have unduly taken up the nation's time."

BMG 80 finalists

THE information supplied to us on the results of round three of the business management game incorrectly stated that the winning South Island team, which will take part in the BMG 80 final, was from Wilkinson Wilberfoss & Co.

The winning Dunedin team is from the firm of chartered accountants Gilfillan, Morris & Co, which had two teams in this year's BMG but none in round three. The kudos therefore rightly belongs to Messrs Martin, Wilcox, De Gourcy and Ashley of the Dunedin office of Gilfillan, Morris & Co.

Gilfillan, Morris & Co was the only firm of accountants of the many which entered the BMG to succeed in getting through to round three this year.

ICL and the game staff apologise for the confusion with these firms' names and regret any embarrassment.

Overseas trade

Leather leaders look to lucrative American market

by Allan Parker

LEADING members of the leather industry met in Christchurch last week to piece together an assessment of finished leather export opportunities to the lucrative United States market.

Representatives have recently returned from a Government-sponsored export opportunity visit to nine American states to investigate the potential for selling leather products to the United States.

The United States imports leather products worth $300 million a year. Traditionally, those imports have come from continental Europe and Britain but the low-cost, high-volume developing countries in Asia and South America are grabbing an increasing percentage of the trade.

Team leader Nigel Bowron, of Christchurch-based G L Bowron and Co Ltd, told *NBR* that preliminary assessments indicate that this country has no chance of competing against these countries for the mass-produced market.

But he is confident that there are definite prospects in some sectors for specialised products.

"We certainly see some niches for specialised types of leathers from New Zealand," said Bowron.

Examples include belts, tanned woolskins in finished form for the garment trade and chamois leather products.

The opportunity to develop the chamois leather trade follows this season's drop in the price of sheep pelts.

Bowron hopes the team's report will be at least formalised before Christmas. Interest in the findings is said to be high throughout the industry.

New Zealand manufacturers have made little inroads into the United States market, concentrating instead on Asian and European markets. They see this report as an important pathfinding venture into a potentially large market.

But, Bowron warned that while the team will report prospective areas for developing trade it will also identify those areas which it feels would be a waste of time exploring.

If the potential areas are to be developed, they will still require "a lot of homework" by individual companies. Some capital investment may also be needed and it is possible that the team will recommend some form of Government assistance to industry sectors with the greatest potential.

Government - sponsorship proved valuable for the five-strong team, Bowron said.

"It opened doors more quickly and got us to very senior levels. As an exporter of old, I know it's not always easy to get to the right people."

Bowron suggested that there is room for improvement in the quality of New Zealand products if they are to penetrate the United States market successfully.

"Anyone looking at the United States market has to be prepared to meet the quality conditions required by the Americans. Some companies here may have to make some adjustments to quality and there may have to be some further product development."

Another meeting between the four members will be held in Wellington next week to finalise the report before distribution to the industry and other interested parties.

Energy

FBI's sheik set-ups rattle Saudis

by Warren Berryman

THE touchy Saudi Arabians are again rattling the oil weapon — this time against their old ally, the United States.

The Saudis were not yet over their outrage at the British release of the film *Death of a Princess* when perceived insults came from another quarter — the American FBI.

The FBI was out to trap a few corrupt congressmen by having a phoney sheik pass out bribes while cameras and tape recorders rolled.

The "Abscam Brief" was highly successful in more ways than one — not one of their elected representatives taking a bribe.

But it did not amuse the Saudis. Why, they want to know, did the FBI have to use a phony sheik? Why not a banana republic millionaire? A European tycoon? Or an Indonesian general?

The Saudis made their feelings known at a recent Energy Development Planning conference on Saudi Arabia and industrialisation at the University of Colorado. The FBI, they complained, was furthering the stereotype of the Arab as someone who went around paying money under the table.

The Saudis' remarks were not missed by the representatives of the big American oil companies present.

The Saudis took the opportunity to complain that their close relationship with the United States was becoming a bit one-sided — in the United States' favour — which brought up the question: Why should the Saudis continue producing oil at a higher level than it can spend the revenue, just to supply the West?

It is not that the Saudis are ill paid for their oil. Oil revenue flows into the kingdom at the rate of about $100 billion a year ($14 billion of this from the United States).

And Arabia enjoys military protection under the Americans' umbrella.

Saudi Arabia plans to transform the kingdom into an industrial state as an insurance policy against the time when the oil wells run dry.

But oil production, at 10 million barrels a day, brings in double the revenue needed to finance the country's development needs. (Saudi's third five-year plan calls for expenditure of $235 billion).

All this would justify cutting back oil production, which in turn would probably open the doors to higher oil prices when Saudi Arabia's huge productive capacity was no longer used to tone down demands for higher prices coming from the OPEC hawks.

The Saudis play a key role in oil pricing. At least one of the American businessmen attending the Colorado conference came away with the conviction that future Saudi decisions could depend, in large part, on such seemingly trivial — real or imagined — national insults such as Abscam or *Death of a Princess*.

Taking the guesswork out of drinking and driving

by Lindsey Dawson

AN electronic breath test instrument which aims to take the guesswork out of drinking and driving was launched on the direct mail market last month.

The Swedish unit, not much larger than a cigarette packet and retailing at $69, has been tested by the Alcohol Research Unit at Massey University and was found to give an accurate readout of blood-alcohol levels.

It is called the Alco-Check breath tester and has been imported by the Austscan Trading Company Ltd of Auckland, a firm which specialises in Swedish cutting equipment.

"The unit can help people to get an idea of how much they've had to drink. They can carry it in the glovebox of the car or in their briefcase, and if the unit tells them they're over the limit then they shouldn't drive. Some hotels overseas keep one in the bar so that patrons can find out how fit they are to be behind the wheel," said managing director Guy King, who is adding the product to a considerable list of Swedish imports.

King began operations in late 1976 after living in Sweden for eight months. After a time in Australia he returned here and saw the opportunities for Swedish products, particularly in the field of technology.

"We found that with the downturn of the economy the products we've been bringing in are in a very sensitive area. When companies have a downturn and they're not cutting steel or other materials we're one of the first to be affected. So we've tended to broaden our base a bit and go into other Swedish lines." The company also imports Australian furnishing fabrics as a well-established sideline.

King is also working on developing the export of horticultural products to Scandinavia, and has just sent sample shipments of boysenberries to Denmark.

The balance of trade between Sweden and New Zealand is in Sweden's favour and King sees great scope for a variety of crops to complement what has already been achieved by other companies, notably Turners and Growers and Auckland Export which send Kiwifruit, apples, pears and wool.

King heard of the breath tester through a business contact who acts as a consultant to Swedish companies looking to develop their markets. He told King that the tester had gained a wide acceptability in Scandinavia (100,000-odd have sold since 1978). King's contact is working on introducing the Alco-Check to Britain and the United States and asked King if he would be interested in selling it on the Australian and New Zealand markets.

King did not want to commit himself until the unit had been thoroughly tested here. He brought samples back for examination at Massey University.

The units were judged satisfactory as a device for individuals to judge their fitness to drive, although Massey felt the calibrations should be adjusted slightly upwards; the units were warning drinkers not to drive at slightly under the limit, instead of right on the 80 milligrams per millilitre. Word went to Sweden and the first shipment of 200 have been adjusted accordingly.

King says the first marketing weeks will indicate how successful sales will be. If the market looks assured he intends to set up local manufacturing facilities to produce for the local and Australian markets.

He decided to sell by direct mail to make sure that customers get the best service "I don't want to knock retailers but I didn't want shop assistants giving the impression that the unit is there to flout the law. That's not the idea at all. It's there to help the motorist.

"The other factor is that the units are fully guaranteed, not only for manufacture but also for calibration. If we know where our units have gone we'll set up calibration facilities here and they will be able to come back after 12 to 18 months and have the calibration checked at nominal charge."

King guarantees to replace immediately any faulty units within the 12-month guarantee period.

King says that, despite the price, people are showing a great deal of interest in the battery-driven device. "The reaction has been excellent. I think there is a growing element who now realise the hazards of drinking and driving, and would use such a device."

The Alco-Check has a breath tube on top of the unit, and comes with a supply of plastic mouthpieces to ensure hygiene.

The user blows into it for between four and six seconds and a sensor inside registers the alcohol vapour and shows pass, warn, or fail lights in green, amber and red respectively.

'Ferret' sniffs its way into second decade

by David Robie

NATION REVIEW, the radical newspaper turned magazine that spawned an upheaval in Australian journalism and sent ripples across the Tasman to New Zealand, has celebrated its first decade.

But it has been no ordinary anniversary for the controversial journal, known popularly as the "ferret" for its lean and nosey sniffing out of stories and scandals that the mainstream media wouldn't touch.

The 10th birthday issue was dedicated to a remarkable triumph of survival.

Only last year the paper had expired as a weekly tabloid after last rites had been administered several times during a couple of years. Apparently not even a change of ownership had saved it.

But the new owner-editor, Melbourne book publisher Geoffrey Gold, wouldn't accept defeat and relaunched the journal as a quality monthly magazine at the beginning of this year and it has been rapidly growing in stature and readership ever since.

"It has always referred to itself, proudly, as the independent quality Sunday newspaper, national weekly and, now, monthly magazine. For most of its history, its self-title has been well applied," noted Gold in the October birthday issue.

"Outside of the mainstream media life of the four private and one public media conglomerates, *Nation Review* has acted and continues to act as an independent social and political critic — sometimes maverick, often provocative and invariably innovative."

The journal that boasted writers and cartoonists of the calibre of John Hepworth, Mungo MacCallum, Richard Beckett, Mike Leunig and Bruce Petty, was founded by millionaire Gordon Barton in October 1970. It began life humbly as a piggy-back weekly (called *Sunday Review*) tucked inside Barton's other publishing toy, the original Melbourne *Sunday Observer* (itself something of an innovator).

First editor was Melbourne journalist and historian Michael Cannon. He was shortly replaced by Richard Walsh who was remembered for his inexhaustible ideas and love of bawdiness and scurrility. Under his editorship, the "ferret" absorbed the independent weekly *Nation* and formed *Nation Review*.

Walsh was often busy with legal actions for libel but the weekly grew rapidly, capitalising on the optimism of the Gough Whitlam era, and circulation peaked at 55,000 in 1972.

The "ferret's" satirical, larrikin approach has influenced all other major papers in Australia. This became evident in the more liberal approach of the major dailies and greater use of cartoonists and caricaturists, accompanied by the impact of "new journalism" and more subjective comment in political reports.

Walsh and another former *Nation Review* editor, George Munster, were at the centre of this month's publishing furore in Australia as the Federal Government took legal action to prevent publication of secrets about foreign policy.

The 'ferret' . . . in the beginning and 10 years on

The confidential information was contained in a new book published by Walsh and Munster entitled *Documents on Australian Defence and Foreign Policy 1968-75*.

The *Sydney Morning Herald* and the *Age* of Melbourne on November 8 ran excerpts from the book but a High Court injunction forced them to pull out the material from their later editions. The Government also took legal steps to prevent distribution of the book.

Several New Zealand journalists have been involved in *Nation Review*, either on the staff or as contributors, and the publication has frequently given affairs this side of the Tasman closer scrutiny than has the mainstream press. New Zealand's media have also suffered nasty nips by the ferret.

At one point, the *Review* even considered launching a special Godzone edition.

Columnist Hepworth recalls that *Nation Review* came as a tonic to the establishment press which tended to be conservative and pompous.

"We were irreverent, larrikinish and used language that hadn't been used in public. The net effect of *Nation Review* was that it liberated the language and attitudes of the rest of the press," he said.

"It forced the telling of a lot of stories that were not being told."

Walsh, now chief executive of book publishers Angus and Robertson, explains: "We wanted to achieve a new vernacular strain in Australian journalism — a new standard of quality weekend journalism."

This goal was certainly achieved, opening the way for such publications as the *National Times* and *Sunday* (now *Weekend*) *Australian*. But, ironically, Walsh's staffers recall that he resisted many publishing and marketing ideas that might have given the paper economic strength.

As Whitlam's fortunes faded, so did those of *Nation Review* and its circulation slumped by half. (The paper was never losing less than $2000 a week at the time and it had to carry an overhead of crippling legal costs, reportedly more than $300,000).

"It's curious how the patio left abandoned its loudest and bravest mouthpiece in order to save every week the price of a schooner of beer," noted a former staffer as the journal floundered a year ago. "It shows how highly they value their freedom of speech."

US production increases

INDUSTRIAL production in the United States increased again in October — the third straight month of increase.

The industrial production index had turned down sharply in the second quarter of the year, coincident with the start of the nation's recession, and reached a low-point in July. It has risen 4 per cent since then.

The October increase was 1.6 per cent. But that still left the index 4.4 per cent below its level one year ago.

Local meat firms query producer board's priorities

Continued from Page 1

ABC supporter, used his good offices to convince ABC owner Tsvi Rosenfeld to grant the extension.

Rosenfeld agreed on the proviso that the board refrain from using ABC's rate offer as a bargaining lever against the cartel.

ABC's position on the east coast run is invidious in that the line is actually a member of the conference – it is aligned to the rate agreement and offers services and rates identical to the other carriers.

However, the producer boards have a veto power, in that individual members of the conference may not be given the title of approved carrier.

On November 20 ABC received a telex from the Meat Board saying its application had been declined. The board signed a two year contract with existing meat carriers allowing for an 8.5 per cent rate rise in the first year and an 8 per cent increase the second year.

Rosenfeld reacted angrily saying he would pull ABC out of New Zealand, but cooled off and vowed to stay on and fight. This was the seventh time ABC's offers of cheaper freight rates had been rejected by the Meat and Wool Boards.

Rosenfeld made it clear he was tired of his offers of cheaper freight rates being used as a bargaining lever.

"I was warned by conference members that they would put their rates high and offer inducements to keep us out. They did. And the producer boards fell for it", he said.

Neilson said: "I was inveigled, bluffed, or whatever you call it, to persuade Rosenfeld to extend his deadline. And I was just used in the same way Rosenfeld was used. And I don't like being used."

Had ABC's offer been accepted it would have meant a freight saving of at least $600,000 in the first year alone.

Meat Board chairman Adam Begg said: "If ABC were to take 1000 containers the revenue that would be lost to the existing trade would be about $6 million. This is about the revenue they earn taking these 1000 boxes at the present freight rates."

NBR asked why that was of interest to the board, which was theoretically set up to act in the interest of local farmers and not to look after the profitability of a shipping cartel?

Begg said: "You are absolutely right. That's what we do. But if you look at what would happen if in that trade you take away $6 million worth of revenue and allow ABC to take 1000 containers, which is considerably less than 10 per cent of the trade, you're left with 90 per cent of the trade to carry in some way. You have three options open: one is to settle down to negotiate a price with the existing lines which would undoubtedly result in them seeking to recoup at least part of the loss . . ."

NBR asked why it was 'undoubted' that the existing lines would ask for a freight increase rather than trim some fat off their operation and compete with lower rates as had happened in Australia when the cartels were faced with non-conference competition?

Begg said: "The situation we're in negotiating with them I don't think you're going to trim any fat off them. You can either make an agreement with them or not . . . If you make an agreement with them its undoubted – I didn't say they'd get it – I said they'd seek to recover it.

"If we didn't agree to them recouping some of it I think you would have had the whole thing thrown open. That's the second option. Okay, so ABC take 1000 boxes. The rest of the trade is open to all comers. The existing lines already have a contract signed with Australia so we were left at a disadvantage versus Australia. In trading we'd get a residual offering so far as those lines were concerned. Don't forget we spent seven weeks looking for alternative carriers and they were not there. We would have been left in a situation where Australia would have priority of times when the prices were high and we had a lot of beef to ship because the Australians are in a contract situation. We'd be in a catch as catch can situation and undoubtedly we'd lose out at the times when the market was best."

He said the Shipping Corporation's application for approved carrier status had been turned down just as ABC's application was. His reasons: the meat trade to the USA was suffering declining volumes and the existing shipping lines could handle the traffic.

Begg said if the corporation came up with a new proposal to carry meat as part of its Carribean service "then obviously we're not going to stand in its way. We'd look at a limited service."

Asked about the support for ABC from the New Zealand-owned meat companies, Begg said he did receive a letter from Neilson outlining their support but these listed companies did not come to him on their own bat.

" I deal with the Meat Exporters Council in these matters. They (the members) endorsed what we proposed to do.

"ON shipping matters we deal with the official body. That's the Meat Exporters Council. What a hopeless mess I'd be in if I started talking to all meat exporters individually round the country," he said.

Some locally owned meat companies fear the council, like the trade itself, is dominated by foreign concerns and is not always sympathetic to New Zealand's interest.

Neilson has already written his directors report for Waitaki NZR (due out before Christmas). In it Neilson said he was "bitterly disappointed when the limited request to carry 1000 containers a year from the South Island was declined. "Waitaki lost the possibility of saving $400,000 a year on freight on this route," he said.

"It must be conceded that the New Zealand meat exporters as a whole may have saved $4 million in freight by the Meat Board being able to bring the conference lines' demands down from an increase in freight rates of 14 per cent to an actual 8.5 per cent. "But for how long can ABC allow itself to be used as a shadow competitor only?"

Neilson was concerned that the board's restriction of exports to the cartel meant that his com pany and other New Zealand-owned companies were forced to ship on a line owned by competing foreign-owned meat interests.

Blue Port (ACT), one of the cartel members favoured by the Meat Board decision, is owned by the British Vestey family, which also owns a large slice of the New Zealand meat industry.

Among the New Zealand Vestey holdings are: W and R Fletcher, Monarch Bacon Co Ltd, Wanganui Mild Cure Bacon Co Ltd, Union Cold Storage Co (NZ) Ltd, Patea Freezing Co Ltd, Amalgamated Products Ltd, New Zealand Stockfoods Ltd, Westfield Freezing Co Ltd, Auckland Meat Co Ltd, and others.

W and R Fletcher is a key meat company carrying considerable clout with the Meat Exporters Council, which in turn advises the Meat Board on shipping matters.

Some of the New Zealand-owned meat companies are concerned about the "London club" – an old boys relationship wherein producer board executives, meat company executives, and British meat and shipping interests gather in British county estates socially.

They fear their own nationalistic hopes might be forgotten by their emissaries amidst all this country opulance and camraderie.

If the Meat and Wool Boards succeed in driving ABC from New Zealand the biggest losers will be manufacturing exporters.

Meat Board flies in face of Government policy

THE Meat Board flew straight in the face of Government policy with its decision to bar freight rate cutting shipper, ABC Container Lines from the United States meat trade.

The Board handed a statutory monopoly to the United States shipping cartel only one day after Transport Minister Colin McLachlan announced Government plans for a major policy review of shipping next year.

McLachlans' statement was read to a meeting of the Chartered Institute of Transport in Auckland by Tourism Minister Warren Cooper

The speech blasted the producer boards for "a certain degree of conservatism present in their attitudes which prevents them from clearly perceiving some of the alternatives available in transport today".

One of the "alternatives" was ABC Container Lines, which received every favourable treatment in the speech.

In relation to the value of New Zealand exports the percentage spent on overseas freight has more than doubled in the past six years, Cooper said.

The Apple and Pear Board, by breaking the conference tradition, saved itself considerable freight costs and Australia, through open competitive tendering, held down conference rate increases, Cooper pointed out.

Cooper said: "Some measure of competition is ultimately the most effective way of regulating freight rates.

"For too long, however, we have been complacent, unquestionably accepting shipping arrangements which have suited us in the past," he said.

'Sanitary protection' becomes socially acceptable

by Belinda Gillespie

MENSTRUATION and the best way of dealing with it is becoming a topic of open debate in the media.

Advertising of what tampon makers (but no one else) euphemistically calls "sanitary protection" is now socially acceptable.

The importers of a well-known brand of tampon noted in its 1980 annual review that the tampon advertising, which began on television in August 1979, was the first of its kind here.

"While not entirely acceptable to all viewers it complies with the strict rules laid down by Television New Zealand which is following world trends in accepting advertising of this kind," the report noted.

Far from opening up a taboo subject, advertisements in all media have further added to its mystification.

They show a glamour world of young things in flimsy dresses and leggy blondes in sports gear, but omit the physical realities.

Like the ads for other products – cigarettes and soft drink, bras and detergents – they promise women that in buying brand X, they will be buying looks, body and lifestyle along with the package.

Their object is not to be explicit, but to position brand X against brand Y by offering a better-looking advertisement.

It took the drama of a privileged statement from Director-general of Health John Hiddlestone to break down the taboos and put the topic, if briefly, on the public agenda.

The events which led up to the privileged statement of October 6, warning women not to use tampons, began in the United States in May.

The American Health Department's Centre for Disease Control in its weekly *Morbidity and mortality report* said: "Cases of a newly recognised illness known as toxic shock syndrome (TSS) have been reported to CDC by state health departments in Wisconsin, Minnesota, Illinois, Utah and Idaho. Physicians in eight other states have reported individual cases . . . "

In June it noted that a further 50 cases of TSS which had occurred since September 1978 had been reported. It also described three separate studies which had been undertaken in the United States to look at "various practises and products associated with the menstrual cycle".

The risk of TSS appeared to be low – probably about three in every 100,000 menstruating women each year.

The CDC weekly report of September 19 confirmed the roles of the bacteria staphylococcus aureus and tampons in TSS.

For the first time, the CDC singled out a single brand, Rely, in association with an increased risk of TSS.

Of 299 cases reported since January 1980, 25 cases were in women, and there had been 25 deaths.

"While the rate is still low, the severity of the illness and the case-fatality ratio makes TSS a cause for concern, particularly since TSS occurs almost exclusively in previously healthy young women," the report said.

About the time this report must have arrived in New Zealand came the first shock-horror report of TSS here.

After consultation with the sole manufacturer and two importers of tampons, the Health Department issued its privileged statement warning women "to avoid the use of tampons during menstruation, until the possibility of danger following their use had been clarified."

Although claiming to have been alerted to the problem by United States reports of TSS cases, the Department stayed its hand at least from May (the time of the first CDC report) till the beginning of October when the first two suspected cases here were reported from Auckland.

In mid-October the Health Department released the results of its tests on the four brands of tampons available on the New Zealand market – Carefree, Meds, Pursettes and Tampax.

In contrast to its tests on wine, the department felt free to give the brand-names and composition of each product – presumably because, in Health Minister George Gair's words, TSS is related "not to one particular brand of tampon, but to the use of internal sanitary protection". In other words, the department's report didn't confer a market advantage on any brand.

Important findings were:

- Tampons did not contain asbestos;
- No staphylococcus aureus was present in any brand:
- Cultured tampons didn't support the growth of staphylococcus aureus.

TSS was "still a subject for further investigation both overseas and in this country . . . further time and experience may modify this current analysis of the problem," the department said.

The Health Department statement was a comprehensive, practical document which provided helpful hints on safe and hygienic use of tampons.

But as it relied for its release on the media, which by then was tiring of the tampon story, coverage was skimpy.

Gair later bemoaned the fact that newspapers had thus deprived women of the chance to be fully informed before deciding whether to continue to use tampons.

The department is currently negotiating with the importers and manufacturer of tampons over the wording of warning and information inserts to go in the packages.

It wants the emphasis on hygienic practice rather than elaboration of statistical risk, which is the bias of similar leaflets for the American market. It has no plans, however, to produce its own consumer education leaflet.

Dr Bob Boyd, deputy-director of Clinical Services, said that no new cases of TSS have been reported in New Zealand, though the disorder has become more prevalent in the United States.

Most recent Health Department investigations show that blood-soaked tampons support bacterial growth, as would be expected, but no one brand is worse than the others.

While there are still some research results to come in, the department stands by its earlier release: to avoid risk completely, stop using tampons. To reduce risk, change regularly and don't use at night. At any signs of TSS (high temperature, diarrhoea and vomiting) stop using and see a doctor.

What of the market? Bill Templeton, executive director of Johnson and Johnson which makes products for both external and internal use, reported a "short-lived, minor trend away from tampons".

Research done at the time of major interest showed that 90 per cent of women weren't going to change their use of tampons. Ten per cent were planning to change their pattern of use, or stop using them.

Hillcastle (New Zealand) Ltd, and N M Peryer Ltd, the importers of Tampax and Pursettes, reported "irregularities in the market", but no definite trends.

Women in general appear to have made their own "risk-benefit" calculation and concluded that the chance of catching TSS does not outweigh the advantages of the internal tampon, though they may have modified their use in line with the official advice.

Tension continues between courts and the media

by Jack Hodder

AMONG the most interesting and difficult areas of law are those where public and private interests conflict. One such area is sometimes described (not especially accurately) in terms of a conflict between the "right to know" and the "right to privacy".

Significant restrictions on the "right to know" are spelled out in the House of Lords' reasoning in *British Steel Corporation v Granada Television Ltd, the Times, November 7 1980.* It may be recalled (*NBR*, June 9) that Granada had been ordered by the English High Court and Court of Appeal to disclose to BSC the identity of the BSC employee who had leaked some 500 confidential documents, some of which Granada had used in a *World in Action* television programme.

In July the House of Lords, the highest English court, dismissed Granada's appeal but reserved its reasons. Then BSC announced that they would not be forcing Granada on the point.

Early in November the "mole", a former BSC records officer responsible for the destruction of confidential documents who had later been made redundant, public and unashamedly confessed. Finally the Law Lords' reasoned judgments were delivered.

The leading majority judgment was that of Lord Wilberforce. It was than prefaced with some general observations:

- "Freedom of the press" generally meant freedom to publish without pre-censorship, but subject to the laws relating to libel, official secrets and other recognised inhibitions. If BSC had been able to act in time, there was no doubt that they could have obtained an injunction preventing Granada from using the confidential documents. On that basis, the BSC claims did not touch on the freedom of the press even at its periphery.

- A "free flow of information" was not a "right" recognised by the law. There was a distinction between the public interest and what is interesting to the public. Insofar as BSC was a publicly-owned body, the legitimate public interest as to information was served by reports to the Minister who was responsible to Parliament.

His Lordship proceeded by reiterating that journalists' claims of legal immunity had never been allowed by the courts. They were in no different position from any other recipients of confidences such as bankers, doctors and priests, but in a quite different position from that of the police who cannot be obliged to reveal the name of informers.

Lord Wilberforce then referred to the "newspaper rule", which in certain cases enables a newspaper to avoid disclosing its source of information until the time of trial. He was emphatic that the rule applied only in the defamation cases and did not apply to BSC's claim which was based on breach of confidence.

He then outlined a limitation on claims such as that made by BSC: the aggrieved person must have a real interest in suing the source (as opposed to the news media) such that the interests of justice weighed in favour of his being allowed to proceed rather than in the *preservation of the confidence* between the source and the media.

Finally, Lord Wilberforce considered whether the discretion of the court should be exercised in favour of BSC or *Granada in the particular case.* He felt that BSC had suffered a "grievous wrong", that Granada was an active participant, that there had been no disclosure of "iniquity" or misconduct and that BSC should not be denied from proceeding against the source.

That judgment met with a predictable lack of enthusiasm from the British press. Many publications firmly declared that they would stand by their sources notwithstanding the effect of the judgment.

An editorial in *The Times* complained bitterly that the decision would severely inhibit prospective informants and would make for "fewer exposures of wrong-doing, dishonesty and inefficiency in public bodies".

Such arguments are much the same as those embodied in the sole dissenting judgment, that of Lord Salmon. He stressed that BSC was a public corporation, that it was in a parlous condition, that members of the public did not have the same safeguards as shareholders in a private company in learning of mismanagement or misconduct and that Granada had a moral duty to place such matters before the public.

Lord Salmon went on to observe that the only two cases where the press had been ordered to disclose their sources by English courts involved matters of state security (they were connected with the Vassall spy affair in 1963) and that the "newspaper rule" was not necessarily confined to defamation cases.

In support of his view of the "newspaper rule", Lord Salmon cited Sir Owen Woodhouse's judgment in a Court of Appeal decision given here in June, *Broadcasting Corporation v Alex Harvey Industries (1980) 1 NZLR 163.* In that case, AHI sued the BCNZ in respect of a *Fair Go* television programme, alleging defamation and slander of goods. The Court of Appeal refused to order the BCNZ to disclose its sources prior to the actual trial. (That litigation has since been settled out of court.)

However, the New Zealand decision does not go as far as did Lord Salmon. Although Sir Owen Woodhouse did refuse to confine the "newspaper rule" to defamation cases, the other two appellate judges merely extended it to a very similar cause of action (slander of goods). Further extensions seem likely to be inhibited by the *Granada* decision.

Thus it seems that Sir Owen Woodhouse's observation, that "potential sources of information should not be discouraged by the distracting thought that their identity could be quickly disclosed in proceedings taken against a newspaper that might never have to face trial itself", may be outweighed in cases of internal leaks by the ruling of the Law Lords (who man New Zealand's highest court, the Privy Council).

The stage seems set for continuing creative tension between "the law" and "the media".

Industry groups welcome IDC restructuring probes

by Allan Parker

THE Government's decision to refer a number of its inter-departmental industry studies to the Industries Development Commission for completion has been expected for some time — and greeted with relieved approval by groups facing restructuring probes.

Adams-Schneider . . . to discuss packaging

Leaked industry profiles and interim reports compiled by Trade and Industry officials conducting their own studies have scared the industries and associated parties concerned.

"The ignorance and set positions displayed in those reports — however interim — have caused industries apprehension about the even-handedness with which the studies would be dealt," one industry source told *NBR*.

"No such imputation has ever been levelled at the IDC," he said.

Another industry insider said: "At least with the IDC you know you're going to get a fair hearing, in public, and you'll get a fair deal. That wasn't the case with the departmental people."

Certainly, the major embarrassments and difficulties surrounding the industry studies programme have come from the officials' inquiries.

In particular, the leaked profile paper on the car industry created considerable uproar from elements of the car assembly industry, trade unions and other groups likely to be affected in the Trade and Industry profile had been accepted as a base document.

Another difficulty experienced by industries in dealing with the Trade and Industry overseers has been the turnover of staff handling the probes.

Promotions and re-assignments within the department have meant disjointed handling by officials; industry representatives report being faced not only with new staff, but often staff who have little or no knowledge of the industry they have been instructed to investigate.

By contrast, the Industries Development Commission investigations of industries and subsequent reports have been praised behind-the-scenes for *their impartiality and reasoned* judgements based on public (and some commercially-confidential) evidence which have been open to cross-examination.

The IDC will now take over the investigation into the rubber goods and tyre studies immediately. The motor vehicles and electronics industries will be referred at a later stage.

Those studies will be anxious to ensure that research material already compiled by the officials' investigations, particularly industry profiles, will not be used as accepted data by the IDC if the industries concerned do not agree with the conclusions.

But the concern will be largely outweighed by the news that the IDC, not the departments, will be completing the studies and making the recommendations.

The timetable for the completion of these studies will need some readjustment, too. The Commission is nearing completion of its examinations into the original list of studies that government asked it to make.

That list draws even nearer to completion with a meeting tomorrow between Trade and Industry Minisger Lance Adams-Schneider, departmental officials and industry representatives to discuss, finally, the IDC's report into the packing industry.

The meeting was due to take place several weeks ago, but industry complaints about the short notice between receiving the document and the originally scheduled meeting to discuss it with Government caused a delay.

NBR understands that one of the first recommendations of the IDC is the need for a further three studies into separate industries associated with packing.

If this recommendation is accepted, a question of priorities will develop over which of the industries — the referred ones or the new ones — will come under the IDC microscope first.

Whatever the final choice, the Commission is anticipating a busy schedule next year.

"It's overpriced, much too large for you and the taxes are high, but as a status symbol you can't do any better..!"

Resource development

Resource development

Australian analyst sees consumer-subsidised power lure as 'either a blunder or a fiddle'

"TO lure foreign investors with contracts for cheap power as though giant power stations cost nothing to build, and then to load the capital costs onto existing consumers and state taxpayers, is either a blunder or a fiddle, and all the worse for being shrouded in total secrecy."

That is not the conclusion of another "erring" New Zealand economist's attempt to convince the Government that basic economic theory has something to do with project appraisal.

It is a statement contained in an economic analysis of electricity pricing for power to two new smelters and an extension to another in the Hunter Valley, New South Wales.

The report was prepared by Dr Howard Dick, an economist at the University of Newcastle. It is due to be published this month.

Largely concerned with the price of electricity to aluminium smelters, it parallels many of the contentious findings in the appraisal of the New Zealand situation by Otago economist Professor Paul van Moeseke.

There are similarities between the development of the three Hunter Valley smelters and the proposed second New Zealand smelter. The major one is that the electricity required for smelting does not already exist as surplus to requirements, so development costs for extra units becomes significant.

In the Australian case, Dick says that to service the three smelters (with a total production of 596,000 tons a year) will take half a giant power station of about 2640 MW capacity.

Like New Zealand, secrecy has been a problem. But Elcom, the power authority servicing the Hunter Valley region, is reportedly charging even less than the 1.2c a unit mentioned in the State Parliament. Dick, nevertheless, uses the 1.2c figure for his calculations.

On that basis, his analysis shows local consumers and taxpayers will be involved in subsidies of some $126 million a year.

Dick arrives at the subsidy by applying a basic long-run marginal cost techniques (a methodology which Energy Minister Bill Birch and van Moeseke agree should be used in New Zealand).

The 1980 *Energy Plan* states the principle of long-run marginal cost "is the logical basis for pricing policy", although there is a hint it may not be entirely understood, since the comment is prefixed by the statement that this "recovers the true cost to the nation of energy supply". In general this is not normally the case.

The crucial point in this theory is a simple one, that a resource should be charged at its market value and not merely at the cost of production, or cost of production plus a profit margin less than the potential market value.

Dick has a simpler job than van Moeseke because the Australian electricity is produced from coal, for which there is a thriving export demand.

The coal to be delivered to power stations serving the three smelters is to be sold at close to a $16 a ton below its current export value (specifically, the export price less loading and transport charges).

"The difference of $16 between what the coal is worth and what Elcom charges as the average cost of production is a subsidy to consumers of electricity," Dick says.

Further, the aluminium companies will export most of their production, which effectively means they are exporting coal at $10.30 a ton rather than the current rate of $26.

The subsidy for the 3.8 million tons of coal required amounts to $60 million a year.

The opportunity cost lost to consumers (or the value they have to give up to sell cheap coal to the power companies for the smelters), is $16 a ton. In short, instead of selling power at the real long-run marginal cost (which in the case of coal is the same as the opportunity cost of exporting it), Elcom sells it at production cost.

New Zealand's case is different; you cannot export the raw material directly (water or hydro power). But the principle remains: What does it cost us to produce the marginal, or extra, power units just for a smelter?

Two considerations are important. First, what is the opportunity cost of our resource? That is, what could we sell it for to other projects?

But at a more basic level is the question of production costs for new power to service a smelter, or any alternative project. If the opportunity cost is lower than the production cost, the project makes little economic sense.

New Zealand is moving to sell power to a smelter consortium for about 1.7c a unit, at least 50 per cent less than the current cost of production. Thus, we do not appear to be getting even the cost, let alone the value, of the resource.

And the 50 per cent subsidy on cost alone takes no account of additional subsidies in the form of regional and export incentives, and publicly financed infrastructure costs such as roading, water, harbour facilities, and so on.

But this accounts only for the cost of producing power. Dick's paper then discusses the cost of developing the generating capacity.

It reiterates another principle fundamental to van Moeseke's report, that if capacity is developed for a smelter alone, the smelter should pay the full cost of development, since nobody else benefits from it.

Again like New Zealand, Dick states that new generating capacity must be rushed in time to meet contracts with the aluminium companies.

Construction of a 2640 MW coal-fired power station will cost $1000 million, and at current interest rates of 12.9 per cent "it would certainly not be economic to build these new stations in order to supply power to the existing grid", Dick says.

"The only justification for building them is to meet additional demands. The companies which account for this additional demand should therefore bear the higher total costs."

In fact, like New Zealand Government, Elcom is going to charge the capital cost to other electricity consumers.

Dick calculates the aluminium companies' share of total development costs for power development at $85 million a year.

"The $85 million annual capital charge which should be allocated to the aluminium companies would absorb almost the entire annual revenue which Elcom is likely to receive from them for electricity supply," he says.

So accounting for earnings foregone in selling power cheap, and capital charges for power development not made, the subsidy other consumers pay is $126 million a year.

Dick uses the same methodology as van Moeseke, but van Moeseke's total subsidy against New Zealand consumers for additional smelting capacity of 300,000 tonnes a year is higher at about $130 million because of the much greater cost of developing and supplying hydro power.

The subsidy must inevitably be reflected in increased power charges to other users. But part of it, that which is occupied in foregone earnings that would be made if the resource was sold at its real value, of course does not appear (in the balance sheet) to come out of anyone's pocket.

This part is reflected in indirect costs, such as lower incomes and higher taxes, to make up the loss in revenues.

One of the prime areas used to justify such projects is employment opportunities.

Dick states that "the $2000 million to be invested in three smelters and half a giant power station will create about 2500 permanent jobs at an outlay of about $3-$4 million each".

"In the case of the Tomago smelter, the annual wage bill has been estimated at $15 million for 800 employers. If the same average wage of $20,000 is applied to employment in the other two smelters and half a power station, the total wage bill amounts to $50 million," Dick says.

"The annual subsidy from the state government for electricity alone will be more than twice this amount. For every $20,000 paid out in wages, the aluminium companies will be receiving a power subsidy of $50,000.

"But the situation is even worse than these figures suggest. Because of the acute shortage of trained people, many of these jobs will be filled from overseas. Many others will involve the poaching of skilled labour from established local industries which cannot afford to pay such high wages."

"It would be virtually impossible to design a job creation scheme which, for such a massive outlay of both private and public funds, did so little for the young and unskilled who constitute the larger proportion of those presently unemployed."

Dick's assessment is the same as that reached by the Labour Party in New Zealand. Labour leader Bill Rowling said in Dunedin recently the channelling of investment almost exclusively into major projects will make an already "disastrous" unemployment problem "absolutely catastrophic".

Dick acknowledges the multiplier effect during construction phases of the smelter improves the position. But he claims a rosier picture cannot be seen in isolation, and must be compared to the effect if job creation capital was to be invested in other ways.

"Yet so far the Government has offered no alternative investment programme to aluminium smelters and power stations."

The rather disastrous developing situation can at least be remedied in the Australian context.

Dick argues that, given the *lack of cheap power blocks* available internationally for smelters, Australia's stable political climate and its bauxite resources, the companies would still be getting a bargain if electricity was sold at the realistic rate of 2.75c a unit.

He says the fact that electricity has been sold cheaper than it need be to attract aluminium companies is "the ultimate indictment".

"Yet state governments in Australia continue to boast that it is good government to give away the nation's resources, and stubbornly resist any efforts by the federal government to uphold the national interest.

"Few Third World governments are quite so naive in dealing with foreign multinationals." Dick says.

In addition he advocates taxation policies designed to maximise the proportion of revenue retained in Australia.

"Unfortunately the aluminium companies have as much skill as the multinational oil companies in setting transfer prices to various subsidiaries to minimise the payment of tax in the host country."

New Zealand is less fortunate. Its power is much more expensive and it has none of the raw materials used in the process. Alumina, unlike Australia, is a massive addition to the import bill.

And the CSR-Alusuisse-Fletchers make-up of the consortium provides the potential to set transfer prices at all stages of production.

Even political stability is now questionable, since Rowling has stated a 1981 Labour Government would be prepared to stop the project or at least re-negotiate an unfavourable contract

Van Moeseke told *NBR* the Dick analysis, confirmed the view in his report that new Australian smelters are only marginally viable if they pay the full cost of electricity, which is up to 2c less than the cost of electricity in New Zealand.

In addition, he said, leading European metal analysts are now projecting that the huge supply capacity planned for Australia, tied to crises in the car and aircraft industries, may create an opportunity and thus price drop in real terms later in the 1980s.

"Long-run market projections by European metal analysts cast serious doubts on the magnitude of current Australian smelter plans, some of which may have to be scrapped," van Moeseke said.

"A second New Zealand smelter is submarginal *vis-a-vis* Australian ones, mainly because it has to import alumina, which Australia produces, at a cost of over $90 million in foreign exchange annually, and because our long-run marginal electricity cost is up to 2c more expensive, a difference of some $60 million a year for a 200,000 tonne smelter.

The metal analyst's projections are, for now, being ignored, as aluminium companies seek to tie up cheap blocks of power in the rapidly dwindling list of countries still prepared to enter into such contracts. In short, the huge increase in capacity either planned or under way, appears to be a result of competition for those few power blocks, and not necessarily in response to projected market demand.

The result in Australia and New Zealand is the same; unseemly haste, carried out in secret with golden promises of jobs for the growing unemployed, consumer wealth and network of downstream industries.

Dick states that in New South Wales, approvals for smelter projects "are being rushed through without proper economic analysis. There is good cause for apprehension".

"In few Third World countries could such a massive development programme be pushed with so little vital information and so little debate," he maintains.

His analysis of electricity pricing to the three Hunter Valley projects in the more favourable Australian climate should be food for thought, with its obvious disturbing ramifications for any increased smelter capacity in New Zealand.

Management

Business tries to cut travel costs

by Allan Parker

Hotel	Single $	Twin $
Intercontinental	66	70
Vacation (ex-Logan Park)	57	60
Travelodge	56	62
South Pacific	55	65
Town House	55	60

THE HIGH cost of inter-city travel within New Zealand is having a marked effect on the business community as it tries to reduce or cut costs.

Travel agents, airlines, rental car firms and other organisations involved in business travel – a mainstay of the travel trade – report falling trade, fewer overnight stays and a search for cheaper accommodation.

At the same time, management faced with extensive executive and marketing travel costs are making increasing use of the variety of preferential and bulk-rate discount schemes offered by travel organisations like Air New Zealand, hotel chains and car-hire firms.

And, in some circles, there is a growing preference for the use of inter-city conference calls and telex messages in instances where face-to-face meetings are not vital.

The reasons are not hard to find. The cost of a city-to-city business trip involving an overnight stay and client or company entertainment has skyrocketed in the last 12-18 months.

Typically, such a trip between Auckland and Wellington might now cost:

	$
Taxi to airport:	10
Return airfare.	140
Rental car:	30
Accommodation in major hotel:	65
Restaurant lunch for three:	60
Evening dinner for four:	120
Taxi to office:	8
Total	433

Add to that the cost of an executive's time and the total package becomes daunting for all but the richest companies (and Government departments . . .)

The effects of the business community's turn-off is being felt through most aspects of the travel business.

Hertz managing director Ivan Jamieson, for example, notes "a certain slow-down in business hiring".

Companies still using hire cars have noticeably shifted away from previously-popular six-cylinder models to the economy size. He sees the trend as one link in the nationwide effort to arrest costs.

Air New Zealand, too, has noticed a slackening in trade. Ian White, regional director (New Zealand), says the total market has fallen "probably 7 per cent" in the last three months.

While maintaining that the largest fall-off has been in the private holidaymaker sector, White agrees that "most of our client companies are observing normal business prudence in keeping their travel needs as low as possible".

Trunk route services – the major centre links – are still well-patronised by the businessman, according to White.

Hotels are also feeling the pinch. Alex Melbourne, national sales manager for the Travelodge group, says there has been a "softening" in the commercial market over the last six to eight months.

While this fall-off has not reached the alarming stage, the group is concerned, Melbourne told *NBR*. (Curiously, Lion Breweries public relations manager Des Fitzgerald, whose company runs the South Pacific Hotel chain, was the only travel trade source *NBR* spoke to who reported no fall-off in business).

Again, the reason is not hard to find. Some sample overnight costs at major Auckland hotels at the end of August are shown here.

Wellington rates are not much lower.

Increased competition by the provision of more top-rate accommodation does not offer much salvation. One industry estimate suggested that the *retail rate for a new hotel room* would be as high as $80 a night.

These rates, as with the retail rates offered by other sectors of the travel trade, are, of course, for the walk-in traveller.

To overcome these high rates, more companies than ever are taking advantage of the preferential and bulk-volume discounts offered to companies and organisations whose representatives travel frequently.

Travel trade groups report increased use of these discount rates as the business community looks to ways of reducing the high cost of sending an executive to another centre.

(One travel agent, however, said some companies are no longer using the discount rates offered by Air New Zealand because the airline insists that the scheme operate on a credit account basis: these companies argue that the 5 per cent saving is just not enough compared with the money to be earned on the interest market instead).

Discount rates are certainly one avenue for reducing costs. But companies and organisations are finding many more.

Some, for example, are cutting out overnight stops wherever possible. The travelling executive is expected to complete the business on the same day and return to home base without overnighting. A limitation to this is flight schedules which may not suit the traveller's timetable.

Others are reducing week-long visits to another centre to one, two or three days. Yet others are making one visit a month instead of two.

Greater use of the telephone for inter-city contact that does not absolutely require a face-to-face meeting is becoming more common, too.

The New Zealand Manufacturers' Federation, for example, has held a number of *conference-call* meetings between district association directors in the four main centres. *Estimated cost: $100* – less than one return Auckland-Wellington airfare. The saving: airfares, airport-city transport and meals for three directors.

The federation's executive are among a growing number of frequent travellers looking at alternative accommodation.

Federation and associated trade group executive officers now stay at Auckland's Commercial *Traveller's Club when* overnighting in the Queen City.

For a $100 membership fee and $50 a year, travellers can use one of the club's 24 motel units for $22 a night single or $25 double. They also have use of the club's other facilities including conference rooms, bars and a licensed restaurant.

Auckland CT club general manager Peter Wahlstrom *reports a 95-98 per cent* occupancy rate midweek and an overall weekly average of 80 per cent.

Wellington's new Commercial Traveller's Club premises are still under construction but the club is already getting keen interest from members about room availability and rates.

Staff of the Development Finance Corporation now use an Auckland inner-city motel in which the corporation has project finance.

Businesses throughout New Zealand are feeling the travelling cost pinch and looking more than ever at cost-cutting exercises.

But not all will insist their staff travel the way one Wellington businessman does when he visits Auckland.

He drives up the North Island, making calls on the way. At the end of the business day he visits bars in the city, takes in an 8 pm film then visits a sauna where he uses the facilities to wash himself and his laundry.

A quiet beach and the back seat of the car provide the night's sleep in preparation for the next day's business.

Terex takeover boosts franchise holder's business

by Rae Mazengarb

THE takeover of General Motors Terex Division by the German IBH company will provide a much needed boost to local Terex franchise holder Clyde Group Ltd.

It will give Clyde access to a wider product range, particularly light industrial equipment, and because the equipment will be manufactured world-wide, a greater currency flexibility should follow, managing director Alan Sinclair told *NBR*.

Terex executive W J Kienapple – who becomes vice-president of sales (Far East and *Pacific) for Terex Corporation* – was recently here to acquaint Clyde executives with information on the merger – to take effect from January 1 – and its future implications.

IBH Group is the world's fourth largest construction equipment manufacturer. Founded in 1975, it is projecting a 1981 turnover figure of $1.3 billion.

But the benefits from the *takeover* will not accrue immediately to Clyde, which has suffered sluggish progress with plummeting profits and falling sales in the last year because of the downturn in the construction industry.

Sinclair estimates it will be two years before consolidation in IBH is achieved and the effects of the move are felt here.

But with access to the new *range* of more adaptable equipment, Clyde could move into areas where it has not previously been able to compete, such as forestry, he said.

The international developments come at a time when Clyde has embarked on its own restructuring plan, which includes the merging of subsidiaries Clyde Industries (NZ) Ltd and Engines Transmissions Ltd.

The reorganisation has meant some redundancies and at least 12 more jobs are expected to be lost this month.

Another subsidiary, Atlas Steels (NZ) Ltd, ceased trading earlier in the year and assets were sold to Southward Engineering Co Ltd.

While these developments have the hallmarks of retrenchment, the company does not see them that way. Rather, the plan is to reposition the company for growth, Sinclair said.

Economic restructuring

As politicians excite themselves with 'more market' approach, Galbraith remains loftily unimpressed

by Colin James

WHILE many politicians and economists excite themselves with versions of the "more market" approach, one towering figure in the economic world remains loftily unimpressed: John Kenneth Galbraith.

Galbraith remains unrepentantly interventionist — on the simple ground that in half the economy the market does not and cannot exist. It has been replaced by large corporations and unions which determine their own incomes.

He crystallised this theory in the early 1970s — the end of the great "liberal" era, to use the American meaning of the word, begun in the 1930s (with the New Deal in the United States and the Labour Government in New Zealand).

And he argues that the evidence since that time has supported, not undermined, his theory. In particular, he argues that reliance and indirect monetary and fiscal measures has been found wanting and has led only to a combination of inflation and unemployment — in his view, inevitably so.

"The market," he wrote in a recent book, *Almost Everyone's Guide to Economics*, "is an admirable vision which appeals greatly to economists with a secure income and tenure.

"But every person in real life seeks, above all, to get some control of his own income.

"The most obvious way (to get that control) is to be big in your market. Another is to have a union. Another is to get the Government to protect you from the market with a minimum wage . . . or to fix your minimum farm prices."

And again: "Milton Friedman has a vision of an economy that is made up of competitive firms ruled by the market. . .

"Monetary restriction doesn't stop the people who have escaped the discipline of the market and got control of their prices and incomes from shoving up those prices and incomes.

"They are stopped only when there is a lot of unemployment. Meanwhile, it does work, in a rather punishing way, for those who are still subject to the market." The same goes, he wrote, for fiscal policy.

And on deregulation, perhaps the more marketeers' strongest line: "Some of the talk of deregulation comes from my fellow economists, who are persuaded this might save the market. There is room for a touch of romance, even in economics. . .

"There will, of course, be no general deregulation and the market will not be redeemed. . .

"Where economic affairs were once regulated by the market, they are now extensively the product of the bargaining between interest groups under the aegis of the government."

Galbraith is sceptical also of any interpretation that the Reagan victory in the United States presidential election is evidence of a swing to the right, as he indicated in an interview shortly after the election.

Rather, he saw it as an indicative of the failure of the left adequately to come to grips with the implications of the large organisations which dominate the modern economy.

He put it this way:

GALBRAITH: The *bona fide* left has not dealt as seriously as we should with the problem of the large organisation, public or private.

I think it is quite clear that large organisations have an ageing problem, whether they are in Washington or Detroit and this is a problem which, especially as regards the large public bureaucracy, we have been negligent on.

The left in the United States, as in Britain, as in Canada, as elsewhere, has been reluctant to tackle the problem posed by strong corporations and strong trade unions and the wage-price spiral.

It is, also, perhaps inevitable that after a period of energetic concern for job safety, the environment, conservation, we would have some reaction. That has happened in the past and we should not be surprised at it happening at present.

But I don't think anyone should doubt what the meaning of the election here, last Tuesday as we speak . . . it was far less a Reagan victory than a Democratic defeat.

Harry Truman once said that whenever the people of the United States have to choose between real Republicans and imitation Republicans they will always choose the real Republicans. We have had a very conservative economic policy in the last four years, with heavy reliance on monetary policy.

Paul Volcker (chairman of the Federal Reserve Board) is a modest disciple of Professor Milton Friedman and while one tries to control the economy by monetary policy in the face of strong unions and in the face of strong corporations, one doesn't get stable prices and high employment, one gets high unemployment and continuing inflation.

It was the genius of Jimmy Carter's economists that they managed in the month of the election to combine a severe recession with severe inflation, with a severe slump in the housing industry. No one will ever accuse them of being political in their economic policy.

***NBR:* As you criticised Richard Nixon for doing in 1972.**

Richard Nixon was criticised for policies that brought inflation and unemployment both down to a less than 5 per cent rate in their respective calculations. And there's no doubt in my mind that he was a much shrewder politician than Carter's advisors.

Gerald Ford in 1976 listened to his conservative economic advisers, including William Simon and Alan Greenspan and his fate was the same as Jimmy Carter's but not quite so bad because the recession was not quite so bad. I consider the economic influence here to be far more powerful than that of the Moral Majority.

You mean a negative reaction to inflation and unemployment rather than a positive thrust by what you might term the affluent society?

A negative reaction to inflation and recession was far more important than a positive reaction to God.

Having said that, I don't again want to simplify matters. I would remind once again that those of us who consider ourselves on the liberal left have been negligent on the problems of the large organisations.

And also the conservatives are the natural beneficiaries in the United States of affluence. As people become better off, they're bound to be less angry. We've seen this over the last 150 years.

The voice of Marx has diminished in the capitalist countries not because people suddenly stopped reading him but because, and under the conditions of working class affluence, he became irrelevant.

So we shouldn't be surprised if countries become somewhat more cautious and conservative as they get richer. It has been noticed even, I believe, in New Zealand.

Do you then see the evolution of a more or less permanent governing conservative majority over a period of time in the United States?

Not yet, because we still have a strong liberal-left tradition. We still have social problems far beyond those of New Zealand: the cities, the minorities, the urban poor. And we have had the specific failures of the liberal left that I mentioned, that one can only hope will one day be corrected.

There is also the peculiar weakness of the right in this country which we'll see in the months and years ahead. It is divided between the people who accept the twentieth century and the people who have a romantic commitment to the eighteenth century and in some cases to Genghis Khan.

And so they're going to be afflicted with the notion that everything can be accomplished by monetary and fiscal policy, which is, of course, impossible.

Is that the unifying point of otherwise disparate beliefs?

There is a certain unification in being in power.

What do you see, then, as the likely outcome of the Reagan policies if the Administration attempts to follow those policies?

Everyone should be cautious about predictions and I would say that as he will abandon controls, even the limited controls we have, that the outlook is either for more inflation or inflation controlled by severe unemployment. This is the weakness of the alternative that he offers.

You don't see as a possibility that these measures could lead to increased inflation temporarily and eventually lead to a more stable economy?

That's the theory that lies behind Margaret Thatcher and of which one will hear much more in this country — that you can have a cleansing effect from a severe monetary policy.

Nothing is more important than that one be suspicious of these metaphors. The notion that there is some purification in hardship does not stand examination.

I wrote a piece a few months ago saying how good it was that Mrs Thatcher was giving Professor Friedman's policies a thorough try. They needed to be tried out in practice.

And I said that we should be warned against the excuse which is that another six months of hardship will always produce the results that are sought; will always bring inflation and unemployment to an end. And I think now we should be wary of that argument in the United States.

Do you sense then that the next four years may see the discrediting of those policies?

Well, as I say, this is the extreme. I told you what I thought the weaknesses were on the liberal left. It was that we went too far in that direction and managed to contrive this interesting combination of recession, inflation and housing slump. Now there is a very good chance that the right will try to do the same thing in spades.

That's why I see the long run likelihood of the kind of pragmatic liberalism that we have had in the past, which has to include firm restraints on wages and prices directly by the Government because that is the only alternative to controlling inflation by unemployment.

You wrote in one of your earlier books — I think it was *American Capitalism* — about the theory of countervailing power. You don't see the big blocks as providing *ipso facto* controls on inflation?

Churchill once said that he had often had to eat his words and they were on the whole a wholesome diet. Countervailing power does not work under conditions of inflation. It worked admirably during the Depression. And I was more than a little influenced by that experience when I wrote that book in 1952.

Does the adversarial process, then, necessarily lead to inflation?

Yes. At anywhere near full employment the adversary process leads to inflation. And as proof of the fact that in the countries which have a mechanism of control — the German Federal Republic, the Austrians — they have avoided it.

It has also perhaps some meaning that these are the countries where liberal and social democratic policies are fairly secure.

I would have said that they have a corporate attitude, that there is an agreement on the ground rules between the Government and the unions and the corporation on a sort of band within which wages should rise.

That's right. That wages will be held within what can be afforded out of the existing prices. This is broadly the social market policy.

Which is what you say you would like to see introduced here?

Which I say is inevitable here.

I was going to ask you, is it inevitable that the big blocks — the corporations, the unions and the Government — go on getting bigger?

I see no chance that the thrust to organisation — larger corporations, unions wherever one has large corporation, farm organisations, Opec — will be reversed.

You don't see a potential for that reversal in automation and the developing communications technology? An atomisation or decentralisation?

It may have some effect on the trend, but it will certainly not reverse it. The invasion of the market by organisation is one of the great facts of our time and I don't think it is going to be altered.

Is it the displacement of the market yet?

Let me just say the invasion of the market. The market still exists. There are no absolutes in economics.

But that 1000 large corporations now produce two-thirds of the private product in the United States, that the state, the Government, produces somewhere in the nature of a third of the total product, farmers control their prices through the Government and will continue to do so, that trade unions will continue, that Opec will continue I have no doubt in the world.

This seems to me the only practical judgment one can render.

Therefore, if those organisations continue to exist, I see no alternative to some apparatus of restraint. If I had to cite one of the serious weaknesses with which Reagan starts his presidency, it is the large number of people he has around him whose vision of the economy is that of Adam Smith in 1776.

Is there a likelihood, then, of an imbalance between those three blocks you describe? Is it necessary for those three to be more or less of equal strength?

Oh, no. The economy, we have learned can stand much greater imbalances than we ever imagined. There should be no expectation of refinement of this process.

We do not need to understand, though, the longer-term dynamics of large organisation. I mentioned earlier the tendency to age, which I think we are seeing in a very clear form in Britain, the United States, France and Germany, as they contend with the younger organisations of Japan, Korea, Singapore, Hong Kong.


John K Galbraith . . . "state should be paramount"


Milton Friedman . . . theories given a try


Paul Volcker . . . modest disciple

We are also seeing that modern socialism doesn't come from socialists. Nobody should be afraid of socialism of alleged leftists like Galbraith.

We're seeing that modern socialism comes because large corporations can no longer be allowed to fail. So Chrysler, Lockheed, Eastern Railroad, British Leyland, the steel industry in northern France, all the numerous enterprises in IRI in Italy, all are the failed children of capitalism.

Socialism now comes from the head of the National City Bank — or the Citibank, to use its modern name — and of Chase Manhattan, who say that the last recourse is Washington. They have some thought for their own lendings, surely.

Have there been distortions in the interventionist role of the state?

Certainly.

Which ones would you single out as the most important?

Well, there certainly has been an undue response in the United States to the pleading of special interests. Highly organised groups in Washington get an attention far in advance of those of the faceless and voiceless groups.

This is something that is not going to change under Ronald Reagan, because it is already true that the express needs of a few downtown bankers in New York are heard with far more decibels than all of the people in the South Bronx. And they will be heard with even louder sounds from now on.

That leads me almost to the next question. You talk in one of your essays about sovereignty. You say that the people do not have sovereignty in the market-place or in the political arena. Where does sovereignty lie?

I would say sovereignty, to the extent that it exists, lies in the complex interaction of organisations.

Everybody nowadays surrenders part of his personality to an organisation. The surrender in the case of an executive of a large corporation is very complete.

He never speaks his mind except when he puts it off the record. All journalists know that. He expresses the view of the company.

So in the large bureaucracy. I always had a reputation, when I was serving as ambassador (to India i n the 1960s) of being very outspoken. It was completely fraudulent. It was only that I understood better than anyone else how this censorship worked and used it more carefully, allowing myself more safe freedom.

I am going sometime in the next couple of years to tackle this question in a book on where power lies in the modern economy. It lies in the interstices of the relationship between organisations.

Interstices, to my mind, are gaps.

That's right.

In other words, it lies nowhere.

It lies where the organisation doesn't control.

Then the role of the state vis-a-vis the corporations and the unions, is that in your view desirably a controlling role or is it a hand-in-hand role?

It is a restraint. There is a contradiction here, which I have never denied.

Corporations have great power in the state, trade unions have great power in the state, farm organisations have great power in the state and we turn around then and ask the state to control them.

Well, this is going to be at best a very imperfect control. But it is only if we recognise that relationship, if only it is part of our public perception, that we have any chance of doing it at all.

If we fail to do it and imagine that we can accomplish this restraint of prices driving up wages, wages driving up prices, farmers shoving up their prices by a return to some formula appropriate to the market of Adam Smith, the result will still be much worse.

You're suggesting a circular arrangement whereby the. . .

No. I am saying the problems is resolved in the juxtaposition of great organisations.

You then reject the corporate state approach, the Japanese approach in which there is a very close relationship between industry and MITI (the Ministry of International Trade and Industry).

Well, there is an inevitable relationship between the state and the corporations but I am still prepared to argue that the state should be paramount.

Thatcher's money experiment drifts off course

by John Bishop

MARGARET Thatcher's bold monetarist experiment is in danger of collapse as her ministers face the sternest test yet of their political nerves.

Latest figures show that the growth of the money supply is twice that of the Government's target and also that Government spending is running well over the budgeted level.

The combination of a tight money policy failing to meet its targets and the need to implement promised spending cuts leaves ministers in a double bind as they begin their autumn review of Government programmes this month.

The Chancellor of the Exchequer, *Sir Geoffrey Howe*, told a House of Commons committee that the underlying rise in the money supply since February was twice what the Government wanted.

In a white paper published along with the Budget in February, the Government declared its intention of allowing the money supply to increase by between 7 and 11 per cent in 1980/81.

Howe has now admitted that this target is unlikely to be met.

Latest Treasury figures show sterling M3 – the measure of money used by the monetarists – is growing by 1 per cent a month or 19 per cent on an annual basis after allowing for seasonal and technical adjustments.

Yet Howe stuck to the view that "there was no case for changing basic strategy".

Failing to meet its own monetary targets is only one part of the Government's problem. Further Treasury figures revealed another problem: the Government was overspending its Budget by nearly £1500 million.

Thatcher is pledged by the Conservative Party manifesto to cut Government spending by £1500 million each year of her administration as part of her campaign to reduce the burden of Government.

At the same time, the Tories are committed both by their manifesto and by promises to Nato allies to increase defence spending by 3 per cent a year in real terms for the next three years.

The rising cost of unemployment and falling tax revenue compound the difficulty of how to divide up a shrinking Government cake.

The Government braved the political storm arising out of confidential Treasury letters suggesting cuts in the defence vote being leaked to the press. But the price was reaffirming the manifesto promise.

Ministers, if they are to stick to their guns in cutting expenditure, must now reduce this year's total by £1500 million, as well as finding another £1500 million to cut in 1981/82. At the same time defence spending must increase.

Nor can taxes be raised to meet the shortfall, not on personal or company incomes anyway, without breaking a manifesto commitment.

It's an article of monetarist faith in Britain that the amount of borrowing by the public sector is the principal cause of inflation, high interest rates, and a depressed private sector. The practice of the State creating money without the goods and services to back it must be halted, the Tory monetarists declared.

Here too the Government has exceeded its own targets.

By reducing the size of government activity and imposing tight restrictions on nationalised industries' demand for money, Thatcher and her advisors believe the private sector will be stimulated and interest rates eventually fall.

Real wage increases are to be matched to increases in productivity and limited in total to what the country can afford. The determination of what the country can afford, under monetarism, is the same as determining the increase in the money supply.

The principal method of achieving growth in productivity is the tight money policy, which, in the short term at least, has resulted in falling profits, rising unemployment, high interest rates and a strong pound.

Consistent with the target of a 7-11 per cent increase in the money supply this year, was a planned growth in Government expenditure of between 6 per cent and 10 per cent.

But the Treasury is now forecasting an over-run in Government borrowing of £2000 million – nearly 25 per cent up on the Budget figure.

The heavy demands of nationalised industries for capital to re-tool and reorganise has pushed estimates of the Public Sector Borrowing Requirement (PSBR) for 1981/82 to £12000 million. (£8.400 million this year).

For the Thatcherites accepting such a figure would represent a major betrayal of their objective of releasing funds used by the State sector for productive investment by the private sector.

Restricting nationalised industries even to this year's cash limits would represent a retreat from the monetary targets.

But to slash existing spending by the £3.5 to 4 billion needed to meet the monetary targets would clearly cause more industrial and social hardship.

Already the Confederation of British Industry (CBI) representing almost all levels of business has issued its gloomiest forecast ever.

The CBI report casts doubt on the revelation of the Government's financial policy which is already attracting open criticism from within the Conservative Party's own ranks.

The report reveals 360,000 jobs lost in major industries in the last eight months, and states that 70 per cent of the firms surveyed expect to shed more labour by January.

Even more depressing for the Government was the revelation that 84 per cent of businesses were operating below capacity. Less than one in six were


Margaret Thatcher . . . determined to keep within budget

planning to invest in new plant or equipment over the next year.

Armed with these statistics, the CBI is arguing that some modest reflation is now in order, notably by lowering the bank rate (currently 16 per cent) and therefore reducing the value of sterling, by discouraging the inflow of foreign money.

Howe ruled this out emphatically – "it would be total folly to abandon the present policies when they are beginning to produce results", he told the Commons.

But Thatcher's critics within the party are not convinced.

Former Tory leader Edward Heath is one of the leading opponents of monetarism.

In his view: "It can't be right that we see small businesses built up by hard work over generations now being forced into bankruptcy."

Another Heath Cabinet Minister, Geoffry Rippon, now on the back benches, invokes a Social Credit appeal: "We are in danger of creating a society in which money lending is the only profitable venture."

Sir Terrence Beckett, director general of the CBI, asked rhetorically: "Have we got to go through the next three or four years destroying great tracts of British industry to convince the world that sterling is overvalued?"

Thatcher's reply was that the Government was determined to keep within the announced totals for expenditure, borrowing and on the timetable for reductions.

Rippon warned against what he called "motorway madness". "The Cabinet knows where it started. It knows where it hopes to go – but you can't go blindly along regardless of deteriorating road conditions," he said.

"We ought not at this stage to be cutting public spending that is creating wealth and manufacturing jobs," he said.

That refers principally to nationalised industries like British Leyland, British Steel and British Aerospace.

The Cabinet is now faced with unpalatable alternatives. Failure to stick to the existing policy – whatever the cost – will be a major defeat for Thatcher who has staked her leadership on her economic policies.

It would also give major encouragement to the Labour Party and the unions among others who have repeatedly called for a "U-turn" in Government policies.

Yet to stick to the guidelines as originally formulated – in effect slashing spending across the board and squeezing industry to the limit – invites further social and industrial disruption.

Whichever way the Cabinet chooses to go will have an important influence on the future of the Thatcher Government and the success of its monetarist experiment.